CANADA

REPORT OF THE AUDITOR GENERAL

TO THE HOUSE OF COMMONS

for the

FISCAL YEAR ENDED MARCH 31

1967

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TABLE OF CONTENTS

Appendices

Exhibits

(as published in the Public Accounts)

THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act, R.S., c. 116.

2. In accordance with the requirement of section 70 of the Act, I now report to the House of Commons on the results of my examinations for the year ended March 31, 1967. Subsection (1) of the section reads:

> The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that
>
> (*a*) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
>
> (*b*) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
>
> (*c*) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
>
> (*d*) an expenditure was not authorized or was not properly vouched or certified,
>
> (*e*) there has been a deficiency or loss through the fraud, default or mistake of any person, or
>
> (*f*) a special warrant authorized the payment of any money,
>
> and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

3. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1967 and the Statement of Assets and Liabilities as at that date, prepared by the Department of Finance for inclusion in the Public Accounts, have been examined and certified by me as required by section 69 of the Financial Administration Act, subject to my comments in this Report. Copies of these financial statements are appended as Exhibits 1 and 2. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments and the Summary of Revenue by Main Classifications and Departments, both as included in the 1967 Public Accounts, have also been examined and certified and copies are appended as Exhibits 3 and 4.

Standing Committee on Public Accounts

4. During the First Session of the Twenty-seventh Parliament which opened on January 18, 1966 and continued until May 8, 1967, the Committee examined my 1964 and 1965 Reports with the exception of certain matters therein, notably those which are the responsibility of the Treasury Board. The Committee held 35 meetings during this period and presented 15 reports to the House containing its recommendations on the matters examined.

My 1966 Report was tabled in the House on February 20, 1967, and was referred to the Public Accounts Committee on April 5, 1967. Following this referral the Committee held three meetings. At its first meeting on April 13 the members gave preliminary

consideration to the proposed draft of the legislation respecting the Office of the Auditor General which had been prepared in compliance with the Committee's request in its Third Report 1966-67. The next two meetings on April 20 and 25 were devoted to a discussion of my follow-up report to the Committee showing the status of its previous recommendations, some of which date back to 1961. The First Session then prorogued on May 8, 1967.

The Second Session of the Twenty-seventh Parliament opened on May 8, 1967 and on May 19 my 1966 Report was again referred to the Committee. The members were named on the same date but the Committee has not met and consequently no examination has yet been made of my 1966 Report or the matters still outstanding from my 1965 and 1964 Reports.

As my audit is a post-audit, considerable time elapses between the dates of the transactions reported, their consideration by the Committee and action by the departments and agencies on the Committee's recommendations. If it were possible for the Committee to deal with each Report of the Auditor General promptly, parliamentary control of public expenditure would be greatly strengthened.

Recommendations and Observations by the Standing Committee on Public Accounts not yet implemented or dealt with by Executive action

5. In my Report to the House last year I stated that 49 recommendations resulting from reports of the Committee to November 3, 1966 had not been implemented or dealt with by Executive action. Since that date the Committee has made 15 additional recommendations and has withdrawn one dealing with hospital construction grants which was included in its Eighth Report 1964-65, while the Executive has dealt with the following eight recommendations:

Fourth Report 1964-65
  Living allowances to federally-appointed judges

Third Report 1966-67
  The St. Lawrence Seaway Authority

Fourth Report 1966-67
  Charges for Post Office lock boxes and bag service

Fifth Report 1966-67
  Customs and Excise laboratory

Eighth Report 1966-67
  Cost of faulty planning in ferry design

Tenth Report 1966-67
  Surplus in Defence Production Revolving Fund

Eleventh Report 1966-67
  Central Mortgage and Housing Corporation—
    Securities held by Mortgage Insurance Fund

Fourteenth Report 1966-67
  Charitable donations

The 55 recommendations and observations still awaiting implementation are listed in Appendix 1 of this Report.

Scope of the Audit

6. Examinations of the departmental accounts for the year ended March 31, 1967 were made in conformity with section 67 of the Financial Administration Act which reads:

> The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion
>
> (*a*) the accounts have been faithfully and properly kept,
>
> (*b*) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
>
> (*c*) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
>
> (*d*) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

Our examinations continued to include a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

The attention of responsible administrative and accounting officers was directed to transactions which, in the Audit Office view, were not in harmony with annual parliamentary appropriations or continuing statutory financial directions, or which lacked conformity with Executive orders or regulations.

Our examinations extended to all departments, Crown corporations and other agencies of the Government of Canada, excepting those corporations and other instrumentalities listed in paragraph 219 whose accounts were subject to examination by other auditors.

During the course of their work, members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown corporations and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I should like to express my appreciation for the co-operation thus extended by departmental and treasury officers and by the administrative and accounting officers of Crown corporations and other agencies.

The Audit Office has continued to follow its practice of addressing detailed reports to the executive boards of Crown corporations and other agencies covering the results of its examinations. These reports give a broad summary of the results of operations for the financial year in comparison with the previous year, and make comments and offer suggestions regarding weaknesses in internal control and other matters noted during the audit. Matters dealt with in these reports that are considered to be of interest to the House of Commons are referred to in the relevant sections of this Report.

Findings of the Royal Commission on Government Organization

7. In my 1963 Report I outlined to the House my concept of the responsibility of the Auditor General with regard to the findings of this Royal Commission which were disclosed in its five volumes of reports published during 1962 and 1963.

My views on this responsibility were discussed by the Public Accounts Committee on June 19 and June 30, 1964 and, upon presenting its Fourth Report to the House on July 28, 1964, the Committee stated the following:

> The Auditor General referred to the numerous and widespread findings made public in 1962 and 1963 by this Royal Commission as a result of its examination into the organization and methods of operation of departments and agencies of the Government. He reminded the Committee that where administrative action has caused or contributed to waste of public money, it is his duty to report such cases as he considers should be brought to the notice of the House. He pointed out that while some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations as, for example, through the medium of internal auditing.
>
> By the same token, he considers it to be his duty to study reports prepared by or for the managements of departments and agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings can be made, the Auditor General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to inquire why. On the other hand, he does not conceive it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be and is the sole responsibility of management.
>
> With regard to the findings of the Royal Commission on Government Organization, the Auditor General believes it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving efficiency but because of the substantial savings of public funds which could result. It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament.

Two years later in my 1965 Report to the House I reported on the results of a test examination of the Commission's findings made by the Audit Office during the course of its regular work in the summer of 1965. This embraced some 450 findings of specific situations or conditions involving outdated procedures, uneconomical operations and wasteful practices, the elimination or remedy of which would not only improve efficiency but could result in substantial savings of public funds.

Each of these individual findings was checked through to ascertain what action had been or was likely to be taken to achieve such savings. In order to make the inquiry as broad as possible, 32 departments and agencies were selected whose operations had been studied by the Royal Commission between 1960 and 1963 where the conditions giving rise

to the 450 criticisms existed. It will be recalled that this check revealed that the conditions giving rise to criticism by the Royal Commission in 1962 and 1963 still existed in 73% of the cases in 1965.

At that time I referred to the considerable effort being expended by the Treasury Board and departmental staffs in determining how to adapt the specific operations of departments and agencies to meet the various recommendations made by the Royal Commission and to achieve maximum operational efficiency. As recently as October 10, 1967 the President of the Treasury Board explained this effort in some detail to the House including the extent to which improved management training and more modern accounting techniques are being introduced. On October 23, 1967, in answer to a question in the House, he stated that 57 additional recommendations had been approved by the Government since my 1966 Report was issued. This leaves 94 of the original 276 recommendations to be disposed of. The President of the Treasury Board also stated that the Government has a further list of recommendations under study and intends to discuss some of the remaining ones with the Public Accounts Committee.

In my view the duty of the Auditor General in this matter remains quite clear. He must continue to discharge the specific responsibility placed upon him by the Public Accounts Committee on July 28, 1964, as quoted above, namely "to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to inquire why".

The test-check made by the Audit Office described above is now over two years old. The section dealing with it in my 1965 Report has, however, not yet been considered by the Public Accounts Committee.

The question remains as to the extent introduction of the new management techniques, employment of fresh accounting expertise and reorganization of many of the accounting functions within individual departments over the past several years have eliminated or otherwise remedied the undesirable practices found by the Royal Commission. There is little doubt that the new approach described by the President of the Treasury Board should contribute to increasing efficiency and thereby eliminate many of the outdated procedures, uneconomical operations and wasteful practices brought to light by the Commission in 1962 and 1963. However, our day-to-day experience in the Audit Office shows that many of these undesirable practices still continue. Evidence of this is to be found in many of the situations dealt with in my Report this year, including a number which had previously been referred to in my 1966, 1965 and 1964 Reports. In my view most of them could have been remedied before this date by a prompt common-sense application of the fundamental principles of sound internal financial control and basic accounting principles.

It should be noted that again this year administrative overhead in departments and agencies has continued to rise substantially in terms of staff needs and office costs. It will be recalled that when the Royal Commission concluded its work in 1962-63 the cost of administrative overhead approximated $1,000 million. The comparable figure presently estimated for 1967-68 is $1,594 million, an increase of almost 60% during the past five years. Some explanation of this can be found in Appendix 2 which shows that the number

of employees authorized for departments, Crown corporations and other instrumentalities at March 31, 1967 had increased by 18,788 over the past year. This brings to 39,373 the increase in the number of employees authorized since the Royal Commission published its findings. In assessing these figures, consideration must, of course, be given to the new Government programs which have been introduced and to the reduced purchasing power of the dollar.

Form and Content of the Estimates

8. I have repeatedly stressed in my Reports to the House the importance of the Estimates being presented to Parliament in the clearest manner possible so that Parliament may have a maximum of information in its exercise of controlling public expenditure. In my view, with expenditure of public funds at the levels existing today, it is of the utmost importance that the Estimates be as informative as possible.

The Public Accounts Committee last reported on this subject in 1964 and two of its recommendations which are still awaiting implementation are listed in Appendix 1, item 6 of this Report. One of these calls for brief notes to be given in the Estimates or Details of Services explaining the proposed major increases in establishments. In view of the growth already referred to in many of these establishments, the cost of which is one of the largest single items of public expenditure today, I believe that such brief explanatory notes would materially assist the House in understanding the reasons for the large increases in this type of expenditure which have taken place over the past several years.

The other recommendation was that supporting financial information of Crown corporations and other public instrumentalities be included in the Details of Services so as to inform the House with respect to the nature of the fiscal requirements of the corporations and other agencies requiring financing by parliamentary appropriations.

After considering the recommendations of the Royal Commission on Government Organization, the Secretary of the Treasury Board is waiting to submit proposals to the Public Accounts Committee designed to present the Estimates of a number of departments on a program and activity basis with a view to having this replace the present object of expenditure basis. Such proposals if approved by the Committee will necessitate changes in many of the accounting procedures as well as in a number of the resulting financial statements because the form of the Estimates determines in large measure how the subsequent accounting for expenditure is reported in the Public Accounts. Both the form and the content of the Estimates are important to the Auditor General because of his responsibilities to Parliament.

United Nations and Its Specialized Agencies

9. For many years the Auditor General of Canada has served as External Auditor of the International Civil Aviation Organization, one of the specialized agencies of the United Nations. In this role the Auditor General is a member of the United Nations Panel of External Auditors and in October 1965 was elected its Chairman. He was re-elected to this office for a further term on November 30, 1967.

The Auditor General of Canada has also been the External Auditor of the International Lead and Zinc Study Group, a United Nations agency, since its inception in 1960.

An additional auditing assignment within the United Nations family was undertaken during 1967 when the Assistant Auditor General of Canada was appointed a member of the 1967 External Audit Committee of the International Monetary Fund.

On November 16, 1967, the General Assembly of the United Nations appointed the Auditor General of Canada as a member of the United Nations Board of Auditors for a three-year term beginning on July 1, 1968. In this capacity he will function as one of the three External Auditors of the United Nations.

The Audit Office is privileged to carry out these assignments which are undertaken with the approval of the Government. Travelling expenses and in most cases salary costs are recovered from these client organizations.

Office of the Auditor General

10. The Public Accounts Committee reviewed the functions and operations of the Office at length in 1966. The members expressed their regret that no action had been taken by the Executive with respect to three recommendations the Committee had made to the House in 1963 and 1964 which were designed to ensure the independence of the Office and to improve parliamentary control of public funds. In its Third Report to the House on June 28, 1966 the Committee made two further recommendations. None of these recommendations have yet been implemented and they appear in Appendix 1 of this Report under items 9, 27, 28, 29 and 30.

One of these recommendations dating back to 1960 was reiterated by the Committee in its Third Report to the House on June 28, 1966:

> It continues to be the opinion of the Committee that it is fundamental that the Office of the Auditor General of Canada be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants. The Committee has been particularly pleased to note in this connection that the Office was recently accorded the right by the Institutes of Chartered Accountants of Quebec (1964) and Ontario (1966) to article students-in-accounts.
>
> The Committee believes that, as an officer of Parliament, the Auditor General should have the right to recruit the professional and senior staff he needs, in the same independent manner as do other officers of Parliament and that the Auditor General's establishment be set in the same manner as government departments.

I must advise the House that failure of the Executive to implement this particular recommendation continues to render the staffing problems of the Audit Office extremely difficult in face of its increasing responsibilities.

In commenting on this Committee recommendation to the Chairman of the Public Accounts Committee on January 26, 1967, the Minister of Finance pointed out that the new Public Service Commission legislation then under study would permit delegation of staffing functions to departments and agencies, including the Auditor General, if the Public Service Commission is satisfied that the office or agency has the necessary competence.

He suggested that the views of the Public Accounts Committee be conveyed to the Special Joint Committee, then sitting, for its consideration when dealing with the new legislation.

The Public Service Employment Act came into force on March 13, 1967 and makes provision under section 6 for the delegation of the Commission's powers, presumably including the staffing and recruitment powers as described by the Minister. Because of the pressing nature of the staffing problems of the Audit Office with which the Chairman of the Public Service Commission has been familiar for some time, I recently sought such delegation. In refusing my request, the Chairman stated that the Public Service Commission is not prepared to make any total delegation to any department but that it is prepared to establish an efficient and co-operative work-sharing arrangement.

Unless total delegation under the Public Service Employment Act is granted or a change accomplishing the same objective is made in the legislation under which it functions, the Office of the Auditor General will continue to be severely handicapped in its efforts to meet the standards set by the Public Accounts Committee.

Summary of Expenditure and Revenue

11. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1967, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as Exhibit 1 to this Report. The Statement shows a deficit of $422 million for the year. By comparison, there were deficits of $39 million in the preceding year and $38 million in 1964-65.

Expenditure

12. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1967, as published in the Public Accounts, is reproduced as Exhibit 3 to this Report and shows appropriations of $9,015 million, expenditures of $8,798 million and unexpended balances of $217 million.

13. Of the $9,015 million of appropriations available for expenditure in the year, $3,507 million was provided by statutory authorities and $5,419 million was granted by Appropriation Acts (Nos. 3, 5, 6, 7, 8, 9 and 10 of 1966 and No. 2 of 1967) while $89 million remained available from continuing 1965-66 appropriations.

Of the $8,798 million of expenditures during the year, $3,507 million (40%) was incurred under statutory authorities, with $5,291 million (60%) being spent under the authority of appropriations granted for the year and continuing appropriations of the previous year.

Of the $217 million of unexpended balances at the year-end, $162 million lapsed in compliance with section 35 of the Financial Administration Act and $55 million pertaining to the following departments and votes remained available for expenditure in 1967-68 because of the special wording of the appropriations:

Department	Vote	Particulars	Amount
External Affairs	35	International food aid program	$ 6,536,000
Manpower and Immigration	6	Municipal winter works incentive program	44,031,000
Secretary of State	27	Payments to the Association of Universities and Colleges in Canada	1,321,000
Finance (1965-66 Vote 50)		Forgiveness of indebtedness on loans made by Municipal Development and Loan Board	3,124,000
			$ 55,012,000

14. The lapsed balances of $162 million represented 2.9% of the $5,508 million provided under Appropriation Acts. This compares with lapsed balances of 3.6% of the amounts available in the preceding year and 3.5% in 1964-65. In the following cases the lapsed balances represented more than 10% of the appropriations under the Appropriation Acts:

	Appropriations	Lapsed Amount	Lapsed %
Public Service Staff Relations Board	$ 44,700	$ 15,000	34
Board of Broadcast Governors	814,000	212,000	26
Industry	41,834,000	7,136,000	17
Public Printing and Stationery	4,733,000	713,000	15
Public Service Commission	12,637,000	1,788,000	14

15. The following summary compares expenditure for the fiscal year 1966-67 with the corresponding figures for the two previous years:

	1966–67	1965–66	1964–65
Agriculture	$ 230,657,000	$ 186,264,000	$ 165,724,000
Atomic Energy	60,228,000	54,450,000	46,565,000
Canadian Broadcasting Corporation	115,243,000	97,459,000	87,969,000
Defence Production	42,183,000	31,497,000	30,795,000
Dominion Bureau of Statistics	26,635,000	15,592,000	13,493,000
Energy, Mines and Resources	130,188,000	107,358,000	94,324,000
External Affairs	230,474,000	152,546,000	131,187,000
Finance	1,836,031,000	1,681,039,000	1,479,014,000
Fisheries	41,471,000	34,526,000	25,593,000
Forestry and Rural Development	66,491,000	57,135,000	49,754,000
Indian Affairs and Northern Development	197,415,000	156,434,000	127,306,000
Industry	34,698,000	29,301,000	23,789,000
Manpower and Immigration	320,416,000	236,478,000	179,194,000
National Defence	1,640,378,000	1,548,447,000	1,537,835,000
National Health and Welfare	1,315,942,000	1,175,122,000	1,300,598,000
National Research Council, including Medical Research Council	94,649,000	74,387,000	56,642,000
National Revenue	105,868,000	94,972,000	86,909,000
Post Office	268,494,000	240,206,000	210,459,000
Public Works	294,373,000	275,147,000	234,412,000
Secretary of State	133,847,000	54,178,000	50,826,000
Solicitor General	162,279,000	138,834,000	115,477,000
Trade and Commerce	73,510,000	67,957,000	75,870,000
Transport	603,999,000	532,499,000	470,813,000
Treasury Board	153,358,000	104,417,000	81,799,000
Unemployment Insurance Commission	106,107,000	98,038,000	94,792,000
Veterans Affairs	390,821,000	369,337,000	351,784,000
Other departments	121,929,000	121,175,000	95,352,000
	$ 8,797,684,000	$ 7,734,795,000	$ 7,218,275,000

In the following paragraphs attention is drawn to the significant increases or decreases in expenditure charged to individual appropriations or groups of appropriations which mainly accounted for the increased expenditure shown above for 1966-67.

16. *Agriculture.* Expenditure increased by $44 million (24%). This was mainly due to an increase of $38 million (46%) in grants, contributions and subsidies by the Production and Marketing Branch, and increased expenditure by: Research Branch, $2.9 million (8.9%); Production and Marketing Branch for administration, operation and maintenance, $2.2 million (14%); Farm Credit Corporation, $1.5 million (150%); and Health of Animals Branch, $1.1 million (7.5%); offset by a decrease of $3.4 million (12%) in Land Rehabilitation, Irrigation and Water Storage Projects.

17. *Atomic Energy.* The net increase of $5.8 million (11%) comprised an increase of $8 million (20%) for the operating expenditure and a decrease of $2.7 million (21%) for the capital research program of Atomic Energy of Canada Limited, and an increase of $461,000 for the operations of the Atomic Energy Control Board.

18. *Canadian Broadcasting Corporation.* The increase of $18 million (18%) was due mainly to an increase of $14 million (12.6%) in the cost of production and distribution of programs, $2.4 million in the cost of radio and television broadcasting services at the Canadian Universal and International Exhibition, Montreal, 1967, $2.2 million (2%) in operational supervision and services, and $1.2 million (118.3%) in interest on capital indebtedness; offset by an increase of $1.8 million (5.3%) in advertising and other revenue.

19. *Defence Production.* Expenditure increased by $11 million (34%) due mainly to an increase of $5.3 million (186%) in payments for certain programs to assist defence contractors with plant modernization, and $4.3 million (22%) in departmental administration costs.

20. *Dominion Bureau of Statistics.* Expenditure increased by $11 million (71%) due to an increase of $7.5 million (819%) in the costs of the 1966 quinquennial census, and $3.5 million (24%) in administration and operation costs.

21. *Energy, Mines and Resources.* Expenditure increased by $23 million (21%). Major increases were $15 million (68%) in respect of the Dominion Coal Board, $4.6 million (40%) for marine surveys and research, $2 million (25%) for geological research and $1.1 million (8.2%) for research and investigations on water resources. Offsetting these increases was a reduction of $2.7 million (38%) in contributions to the provinces to assist in the development of roads leading to resources.

22. *External Affairs.* The increase of $78 million (51%) was due mainly to increases of $73 million (86%) in external aid, $3.7 million (19%) for costs of representation abroad, $3.5 million (13%) in contributions to international economic and special aid

programs, and $1.3 million (8.8%) in costs of administration and operation. Offsetting these increases was a decrease of $4.3 million due to there being no counterpart in 1966-67 for the special voluntary contribution to the United Nations in 1965-66. The rise in external aid costs included $62 million in the international food aid program, $1.2 million in contributions to the Indus Basin development fund, and $9.4 million forgiveness of a loan to India, for which there was no counterpart in 1965-66.

23. *Finance.* Expenditure increased by $155 million (9.2%) due mainly to increases of $80 million (7.2%) in public debt charges, $49 million (11%) in subsidies and other payments to provinces, $7.8 million (23%) in forgiveness of indebtedness under the Municipal Development and Loan Act, 1963, c.13, $8.6 million in contributions to the Government of Manitoba relating to the Red River flood in 1966, which had no counterpart in the previous year, $3.9 million (16%) in respect of the Office of the Comptroller of the Treasury, a grant of $2.2 million to the Endowment Fund of the Vanier Institute of the Family, which had no counterpart in 1965-66, and $1.3 million (78%) in interest and principal payments on guaranteed loans and alternative payments to provinces under the Canada Student Loans Act, 1964-65, c.24.

24. *Fisheries.* The increase of $6.9 million (20%) was due mainly to increased costs of $2.9 million (18%) for operation and maintenance, $2.5 million (28%) in respect of the Fisheries Research Board, and $1.3 million (34%) for construction or acquisition of works and equipment.

25. *Forestry and Rural Development.* Expenditure increased by $9.4 million (16%) due mainly to a $4.9 million (37%) increase in payments in respect of programs for rural development under the Agricultural Rehabilitation and Development Act, 1960-61, c.30, and a $3 million (32%) increase in administration, operation and maintenance costs of the Forestry Branch.

26. *Indian Affairs and Northern Development.* Expenditure increased by $41 million (26%) of which $23 million was due to increased activities of the Indian Affairs Branch where construction costs increased by $11 million (68%) and administration, operation and maintenance costs increased by $12 million (19%). National Parks Branch expenditure increased by $6.6 million (23%) of which $2.8 million (20%) was in the costs of operation and maintenance and $3.8 million (26%) in expenditure on construction. Northern Administration Branch expenditure increased by $10.2 million (24%) of which $6 million (48%) pertained to expenditure on construction of buildings, works, land and equipment and $3.4 million (13%) to operation and maintenance costs.

27. *Industry.* Expenditure increased by $5.4 million (18%). This was due to increased expenditure of $4.2 million (974%) for costs of advancing technological capability of Canadian manufacturing by supporting selected civil (non-defence) development projects, $1.3 million (27%) in administration costs, and $1.2 million to provide incentives for the

development of employment opportunities in designated areas in Canada, which had no counterpart in the previous year. Offsetting these increases was a decrease of $1.3 million (5.6%) in costs of sustaining technological capability in Canadian industry by supporting selected defence programs.

28. *Manpower and Immigration.* Expenditure increased by $84 million (35%). This was due mainly to increases of $69 million (45%) in payments to provinces to provide assistance for technical and vocational training programs, $10 million (45%) in administration of the National Employment Service, $4.6 million (32%) in the operations of the Immigration Branch, $1.7 million for construction or acquisition of buildings, works and land in the Immigration Branch, which had no counterpart in 1965-66, and $1.6 million (47%) in costs of general administration. There was a reduction of $3.4 million (8%) in payments under the municipal winter works incentive program.

29. *National Defence.* Expenditure was $92 million (5.9%) higher than in the preceding year. Significant increases were $47 million (3.4%) in the expenditure for the defence services offset by a decrease of $13 million (44%) in development costs, $56 million (333%) in the amortization of deferred charges pertaining to special contributions to the Canadian Forces Superannuation Account, $9.9 million in the Government's contributions to the Canada Pension Plan and the Quebec Pension Plan which became effective January 1, 1966, $4.1 million (28%) in mutual aid and $2.6 million (6.2%) in defence research costs. There was a decrease of $16 million (27%) in the Government's contribution to the Canadian Forces Superannuation Account.

30. *National Health and Welfare.* Expenditure increased by $141 million (12%) due mainly to increases of $78 million (24%) in payments pursuant to the Hospital Insurance and Diagnostic Services Act, 1957, c.28, $42 million (41%) in payments under the Unemployment Assistance Act, 1956, c.26, $6 million (1%) in family and youth allowances and family assistance payments, $2.2 million (86%) in payments under the Fitness and Amateur Sport Act, 1960-61, c.59, attributable largely to the Pan-American Games, and payments of $10 million under the Canada Assistance Plan, 1966-67, c.45, and $4.7 million under the Health Resources Fund Act, 1966-67, c.42, for which there were no comparable expenditures in the preceding year. In addition, the costs of administration, operation and maintenance increased $2.9 million (9%) for medical services, $1.9 million (37%) for welfare services and $1.3 million (26%) for food and drug services. Offsetting these increases were reductions of $7.2 million (27%) in old age assistance payments, $1.9 million (39%) in medical services construction costs, and $1.1 million (6.5%) in hospital construction grants.

31. *National Research Council, including Medical Research Council.* The $20 million (27%) increase in expenditure was due largely to an increase of $13 million (38%) in scholarships and grants in aid of research, and an increase of $5.6 million (18%) in general administration costs.

32. *National Revenue.* Of the $11 million (12%) increase in expenditure, $6.2 million (13%) was in the Customs and Excise Division and $4.8 million (10%) in the Taxation Division. The increases were due to higher administration costs.

33. *Post Office.* Expenditure increased by $28 million (12%) due largely to increased costs of salaries and other operating expenses of $21 million (13%) and increased costs of transporting mail by land and air of $6.3 million (8.7%).

34. *Public Works.* There was a net increase of $19 million (7%) in expenditure. The largest item was an increase of $14 million (77%) for the National Capital Commission. Maintenance and operation of public buildings and grounds increased by $9.1 million (14%). Expenditure in connection with road and bridge construction increased by $3.2 million (67%) and harbours and rivers construction costs increased by $1.7 million (6.2%). General administration expenses increased by $2.4 million (15%). Offsetting these increases were reductions of $7.5 million in respect of the ice control structure in the Montreal harbour area, for which there was no expenditure in 1966-67, $2.1 million (2.5%) in connection with Trans-Canada Highway construction, and $1.8 million (5.3%) for construction of public buildings.

35. *Secretary of State.* Expenditure increased by $80 million (147%) due largely to increased grants to universities of $59 million (214%), and increased expenditure of $16 million (107%) on behalf of the Centennial Commission, comprising $4 million (44%) in the payment to the Centennial of Confederation Fund, $8.7 million (227%) for programs and projects of national significance and $2.9 million (160%) for general administration costs. Expenditure for construction of the National Arts Centre in 1966-67 was $6.4 million which was an increase of $2.8 million (75%) over the preceding year.

36. *Solicitor General.* Expenditure increased by $23 million (17%). The largest item was an increase of $20 million (25%) for the Royal Canadian Mounted Police of which $14 million (21%) was due to increased administration, operation and maintenance costs, and $4 million (43%) was due to increases in pensions and other benefits. There was an increase of $11 million (39%) for administration, operation and maintenance of penitentiaries, which was offset by a reduction of $8 million (28%) in respect of costs for their construction and improvement.

37. *Trade and Commerce.* Expenditure increased by $5.6 million (8.2%). This was due mainly to increases of $3.9 million (85%) for the Canadian Government Participation in the 1967 World Exhibition, $3.7 million (58%) for the Canadian Government Travel Bureau, $1.4 million (50%) for the Exhibitions Branch, $1.4 million (25%) for departmental administration costs, and $1.2 million (16%) for administration, operation and maintenance of the Trade Commissioner Service. Offsetting these increases was a reduction of $7 million (19%) in carrying costs of temporary wheat reserves of the Canadian Wheat Board.

38. *Transport.* The expenditure of $604 million represented an increase of $72 million (13%) over the preceding year. This was largely accounted for by increases of: $28 million—to $116 million—in payments to the railways for the maintenance of freight rates at reduced levels; $22 million—to $165 million—in air services, of which $12 million was in respect of administration, operation and maintenance of the various facilities; $16 million—to $40 million—in expenditure of the Atlantic Development Board, which included increased disbursements of $8.7 million from the Atlantic Development Fund and $6.5 million under the new trunk highway program; and $15 million—to $100 million—in marine services, with $9.4 million relating to construction costs. Other significant increases were: $3.5 million—to $4.2 million—in advances to the National Harbours Board; $3.5 million—to $27 million—for the construction of coastal ferries, docks and terminals; $1.9 million—to $10 million—for The St. Lawrence Seaway Authority in reimbursement of the Welland Canal deficit; $1.4 million—to $1.5 million—in respect of the deficit of the Jacques Cartier Bridge, Montreal; and $1.4 million—to $11 million—in steamship subventions for coastal services. Offsetting these increases were reductions of: $9 million—from $33 million—in the deficit of the Canadian National Railways; $8 million—from $10 million—in railway construction subsidies; $4.7 million—from $41 million—in capital subsidies for the construction of commercial and fishing vessels; $2.8 million—from $3.9 million—to the National Harbours Board for outlays relating to the Canadian Universal and International Exhibition, Montreal, 1967; and $1.9 million—from $7 million—in payments to the railways for the annual cost of maintaining trackage between specified points in Ontario.

39. *Treasury Board.* There was an increase of $49 million (47%) due largely to: an increase of $30 million (117%) in the amortization of deferred charges pertaining to special contributions to the Public Service Superannuation Account; an increase of $13 million (304%) in the Government's contribution to the Canada and Quebec Pension Plans; and an increase of $3.9 million (34%) for the Government's share of surgical and medical insurance premiums.

40. *Unemployment Insurance.* Expenditure increased by $8.1 million (8.2%) due to an increase of $5 million (15%) in administration costs, and $3.1 million (4.7%) in the Government's statutory contribution to the Unemployment Insurance Fund.

41. *Veterans Affairs.* The expenditure of $391 million was $21 million (5.8%) higher than in the preceding year. The significant increases were $10 million (5.6%) in pensions for disability and death, $3.9 million (3.7%) in war veterans allowances and assistance, $3.5 million (7.2%) in operation and maintenance of treatment services, and $1.3 million (74%) for costs in respect of hospital construction.

42. *Other departments.* Although the expenditure of $121,929,000 represented an increase of less than 1% over the preceding year, significant changes occurred in several departments. There was an increase of $2 million (34%) in general administration costs

of the House of Commons. Expenditure by the Public Service Commission increased by $2.9 million (36%) to $11 million. The expenditure by the Privy Council increased by $1.8 million (30%) due to higher general administration costs. Expenditure by the National Film Board increased by $1.1 million (16%) to $8 million. There was a decrease of $12 million in expenditure of the Office of the Chief Electoral Officer, the 1965-66 expenditure having included this amount for the costs of the 1965 general election.

43. *Royal Commissions under Part I of the Inquiries Act.* Expenditure during 1966-67 and the cumulative expenditure of the existing Royal Commissions from the respective dates of establishment to March 31, 1967 are:

	Date of establishment	Number of employees at March 31, 1967	Expenditure during year	Cumulative expenditure
Royal Commission on:				
Health Services	June 20, 1961	16	$ 96,000	$ 1,467,000
Taxation	Sept. 25, 1962	32	765,000	3,420,000
Pilotage	Nov. 1, 1962	12	206,000	808,000
Bilingualism and Biculturalism	July 19, 1963	79	1,601,000	5,917,000
Air Canada aircraft overhaul base at Winnipeg	June 11, 1964		27,000	55,000
Marketing problems of the freshwater fish industry in certain provinces and the Northwest Territories	July 9, 1965		12,000	40,000
Post Office Department employees' grievances	Sept. 1, 1965		29,000	79,000
Honourable Mr. Justice Leo A. Landreville	Jan. 19, 1966		34,000	56,000
George Victor Spencer	Mar. 7, 1966		13,000	13,000
Gerda Munsinger	Mar. 14, 1966		55,000	55,000
Farm Machinery	May 26, 1966	2	80,000	80,000
Security Procedures	Nov. 16, 1966	4	30,000	30,000
The Status of Women	Feb. 16, 1967		9,000	9,000
Preparatory committee on collective bargaining in the public service	July 25, 1963		49,000	207,000
		145	$ 3,006,000	$ 12,236,000

The Royal Commission on Health Services has provided administrative services for a number of other Commissions thereby eliminating the need for administrative staff for these Commissions.

Revenue

44. The Summary of Revenue by Main Classifications and Departments for the fiscal year ended March 31, 1967, prepared by the Department of Finance for inclusion in the

Public Accounts and certified by the Auditor General, is reproduced as Exhibit 4 to this Report. The Summary shows tax revenues accounting for $7,440 million of the total revenue of $8,376 million.

45. The following table summarizes the revenue, by principal sources, for the past three years:

	1966–67	1965–66	1964–65
Tax revenues—			
Personal income tax	$ 2,473,820,000	$ 2,142,456,000	$ 2,103,282,000
Corporation income tax	1,593,225,000	1,606,620,000	1,523,815,000
Income tax on dividends, interest, etc., going abroad	203,621,000	170,019,000	143,718,000
Sales tax	1,513,566,000	1,395,129,000	1,204,610,000
Excise taxes (other than sales tax)	315,581,000	296,178,000	269,082,000
Customs duties	777,586,000	685,519,000	622,102,000
Excise duties	460,980,000	445,886,000	411,402,000
Estate tax	101,106,000	108,352,000	88,625,000
Other tax revenues	170,000	161,000	140,000
	7,439,655,000	*6,850,320,000*	*6,366,776,000*
Non-tax revenues—			
Return on investments	519,140,000	438,254,000	422,694,000
Net postal revenue	253,343,000	237,482,000	230,436,000
Other non-tax revenues	164,044,000	169,764,000	160,404,000
	936,527,000	*845,500,000*	*813,534,000*
	$ 8,376,182,000	$ 7,695,820,000	$ 7,180,310,000

46. The increase of $331 million in personal income tax was due principally to the igher levels of personal incomes during the year. The decrease of $13 million in cor- oration income tax is attributable in part to the absence from 1966-67 receipts of mounts similar to those collected in 1965-66 in respect of the advancement of the pay- ıent dates of corporation income tax which had been started in 1963. Sales tax revenue ıcreased $118 million due in part to a change in the rate from 11% to 12% effective anuary 1, 1967. The increase of $92 million in customs duties was due to the greater olume and value of imports during 1966-67.

47. The amounts shown for income taxes and sales tax do not include collections taxes levied under the Old Age Security Act, R.S., c. 200. These collections, which mounted to $1,286 million in the year, as compared with $1,169 million in 1965-66, ere credited to the Old Age Security Fund. The increase was due in part to an increase the maximum amount payable by an individual on account of the 4% tax on personal come under the Old Age Security Act being raised from $120 to $240 per year effective nuary 1, 1967. A summary of the transactions relating to this Fund during the year, comparison with the corresponding amounts for the two previous years, is given in ragraph 187 of this Report.

48. *Excise taxes.* The following is a summary of excise taxes, other than sales tax, collected during the year ended March 31, 1967, with comparable amounts for the two previous years:

	1966–67	1965–66	1964–65
Cigarettes	$ 231,550,000	$ 217,876,000	$ 197,495,000
Manufactured tobacco	16,324,000	16,393,000	17,149,000
Phonographs, radios and tubes	14,579,000	14,729,000	13,082,000
Toilet articles and preparations	15,476,000	14,114,000	12,791,000
Television sets and tubes	16,608,000	12,232,000	10,440,000
Jewellery, clocks, watches, chinaware, etc.	8,874,000	7,935,000	6,864,000
Wines	4,751,000	4,402,000	4,092,000
Cigars	3,561,000	3,811,000	3,700,000
Sundry	4,343,000	5,034,000	3,816,000
Refunds and drawbacks	—485,000	—348,000	—347,000
	$ 315,581,000	$ 296,178,000	$ 269,082,000

49. *Excise duties.* A listing of excise duties collected during the year ended March 31, 1967, in comparison with corresponding amounts for the two previous years, is given in the following table:

	1966–67	1965–66	1964–65
Cigarettes	$ 188,818,000	$ 179,054,000	$ 168,797,000
Spirits	158,157,000	156,942,000	134,716,000
Beer	113,254,000	107,917,000	105,386,000
Other	7,647,000	8,047,000	8,403,000
Refunds and drawbacks	—6,896,000	—6,074,000	—5,900,000
	$ 460,980,000	$ 445,886,000	$ 411,402,000

50. *Return on investments.* The following is a listing of the revenue from the various investments in 1966-67, along with the comparable figures for the two previous years:

	1966–67	1965–66	1964–65
Bank of Canada	$ 150,585,000	$ 143,106,000	$ 128,238,000
Central Mortgage and Housing Corporation	129,673,000	107,843,000	93,349,000
Exchange Fund Account	60,638,000	62,833,000	63,552,000
Farm Credit Corporation	29,080,000	21,012,000	13,934,000
Loans to national governments	25,693,000	6,451,000	6,383,000
Deposits with chartered banks	24,209,000	21,703,000	19,639,000
Canadian National Railways	16,446,000	11,991,000	11,601,000
The St. Lawrence Seaway Authority	13,754,000	9,400,000	43,065,000
Veterans' Land Act loans	10,589,000	9,075,000	8,308,000
Special United States of America securities—Columbia River Treaty	7,930,000	9,212,000	1,150,000
Export Credits Insurance Corporation	7,755,000	6,782,000	3,047,000
Municipal Development and Loan Act	5,933,000	670,000	—
Polymer Corporation Limited	4,500,000	4,500,000	4,000,000
National Capital Commission	3,781,000	3,254,000	2,858,000
Securities Investment Account	3,649,000	1,330,000	6,504,000
Canadian Corporation for the 1967 World Exhibition	3,552,000	194,000	—
Northern Canada Power Commission	3,142,000	2,238,000	2,105,000

	1966-67	1965-66	1964-65
Canadian Overseas Telecommunication Corporation	$2,555,000	$2,686,000	$2,706,000
Defence Production Revolving Fund	2,543,000	—	—
Canadian Broadcasting Corporation	2,203,000	1,009,000	374,000
National Harbours Board	1,677,000	4,097,000	3,367,000
Eldorado Mining and Refining Limited	1,000,000	1,500,000	1,500,000
Other loans and investments	8,253,000	7,368,000	7,014,000
	$ 519,140,000	$ 438,254,000	$ 422,694,000

The amounts shown for revenue from investment in the Bank of Canada represent annual profits earned by the Bank and paid to the Receiver General as required by section 28 of the Bank of Canada Act, R.S., c.13.

Revenue from Central Mortgage and Housing Corporation for 1966-67 comprised $127,008,000 ($102,590,000 in 1965-66) interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, R.S., c.46, and $2,665,000 ($5,253,000 in 1965-66) profit for the year ended December 31, 1966 which was transferred to the Receiver General as required by section 30 of the Act.

The amount shown for revenue from the Exchange Fund Account includes earnings of $58,336,000 on investments of the Account, paid into the Consolidated Revenue Fund in accordance with the requirement of section 24 of the Currency, Mint and Exchange Fund Act, R.S., c.315. The remainder, $2,302,000, represents the profit for the calendar years 1964, 1965 and 1966 from trading operations in foreign exchange, gold and securities, and from the net valuation adjustments on unmatched purchases or sales during each year, paid over to the Consolidated Revenue Fund under authority of Department of Finance Vote 23a, Appropriation Act No. 9, 1966, *1966–67, c.55.*

Revenue from loans to national governments, $25,693,000, includes $18,154,000 for current interest paid by the United Kingdom. In 1965-66 and in 1964-65 the interest was deferred in accordance with the 1957 amendment (1957, c.37) to The United Kingdom Financial Agreement Act, 1946, *1946, c.12.*

Interest at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%, is earned on deposits with chartered banks in excess of an aggregate of $100 million.

Revenue from The St. Lawrence Seaway Authority includes $13,750,000 received on account of interest deferred in the years 1963 and 1964 and $4,000 received on account of current interest.

Revenue of $7,930,000 from special United States of America securities represents interest for the year ended November 1, 1966 at $4\frac{1}{8}$% to $4\frac{1}{4}$% on holdings of $187.2 million in medium-term non-marketable securities.

The increase to $5,933,000 in revenue under the Municipal Development and Loan Act, 1963, c.13, results from the substantial increase during the year in advances to municipal and provincial authorities pursuant to that Act.

The increase of $2,319,000 in earnings of the Securities Investment Account was due to a larger government investment in securities held for this Account throughout the year.

Revenue of $3,552,000 from the Canadian Corporation for the 1967 World Exhibition represents interest received on notes issued by the Corporation under section 12 of the Canadian Corporation for the 1967 World Exhibition Act, 1962-63, c.12.

The amount of $2,543,000 received from the Defence Production Revolving Fund represents a portion of the surplus that had accumulated in the Revolving Fund over a period of years.

The increase of $1,194,000 from the Canadian Broadcasting Corporation was due to increased interest-bearing loans to the Corporation during the year to finance capital requirements.

Revenue from the National Harbours Board dropped by $2,420,000 due largely to non-payment of interest on the Montreal Harbour debentures.

51. *Net postal revenue.* The following table shows the gross postal revenue, disbursements therefrom and the resulting net postal revenue for the past three years:

	1966–67	1965–66	1964–65
Gross postal revenue	$ 295,443,000	$ 275,994,000	$ 263,704,000
Disbursements—			
Remuneration of postmasters and staffs at certain classes of smaller post offices	36,655,000	33,593,000	28,828,000
Other	5,445,000	4,919,000	4,440,000
	42,100,000	*38,512,000*	*33,268,000*
Net postal revenue	$ 253,343,000	$ 237,482,000	$ 230,436,000

The amounts shown for "Other" disbursements mainly comprise charges on parcels mailed in Canada for delivery in foreign countries and transit charges on Canadian mail forwarded through foreign countries, together with compensation paid to messengers for special delivery of letters and parcels.

52. *Other non-tax revenues.* An analysis of the amount shown in the table in paragraph 45 of this Report for "Other non-tax revenues" for 1966-67, with comparable figures for the two previous years, is given in the following table:

	1966–67	1965–66	1964–65
Services and service fees	$ 65,268,000	$ 63,148,000	$ 60,924,000
Proceeds from sales	21,502,000	22,935,000	24,250,000
Privileges, licences and permits	39,744,000	38,966,000	30,825,000
Refunds of previous years' expenditure	17,197,000	18,919,000	20,546,000
Bullion and coinage	5,430,000	11,217,000	12,299,000
Miscellaneous	14,903,000	14,579,000	11,560,000
	$ 164,044,000	$ 169,764,000	$ 160,404,000

Comments on Expenditure and Revenue Transactions

53. Reference has already been made to the statutory responsibility of the Auditor General, under section 70 of the Financial Administration Act, to call attention to specific classes of transactions observed during his examinations and to any other case that he considers should be brought to the notice of the House of Commons.

Pursuant to this direction, the following matters relating to the expenditure and revenue transactions examined during the year are brought to the attention of the House in this Report. Several matters of a similar nature relative to Crown corporations are also included.

54. *Revised vote pattern.* In its Third Report 1963 the Public Accounts Committee recommended:

> Adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee.

The vote pattern actually adopted for the 1964-65 Estimates differed in certain instances from the pattern which had been considered by the Public Accounts Committee. Details of the more important variations were given in our 1965 Report and paragraph 49 of our 1966 Report, together with examples of transfers of funds between services which would not have been possible under the previous vote pattern. There are similar variations in the 1966-67 Estimates.

The vote pattern considered by the Public Accounts Committee in 1963 included separate votes for Construction and for Operation and Maintenance for each of the three Services of the Department of National Defence. In the 1964-65 Estimates there was only one vote for each Service which provided for both Construction, and Operation and Maintenance, and in the 1965-66 Estimates the requirements for the three Services were amalgamated into a single Defence Services vote for both Construction, and Operation and Maintenance, subject to the Treasury Board proviso that no assurance could be given that "the single vote will be continued beyond 1965-66 in view of the current plans for implementing a system of program budgeting for all departments". These amalgamations, as pointed out in our Reports for the past two years, have permitted transfers by the Treasury Board of substantial amounts between the allotments within the votes concerned for the purpose of utilizing available funds in these allotments.

A further amalgamation took place in 1966-67 when the Defence Services vote was enlarged to take in the former votes for Inspection Services, Vote 5, and for Development, Vote 40. A result of this further amalgamation was that in addition to a transfer of $62,098,000 from the Construction allotment to the Operation and Maintenance allotment, there was a transfer of $7,493,000 from the Development allotment to the Operation and Maintenance allotment.

The Public Accounts Committee stated in its Thirteenth Report 1966-67 that it had not yet completed its examination of paragraphs 9 and 51 of our 1965 Report dealing with the revised vote pattern.

55. *Contingencies vote.* Up to and including the fiscal year 1963-64, the Department of Finance annually had Vote 70 for the supplementing of salaries, wages and other paylist charges and Vote 50 for miscellaneous minor or unforeseen expenses. The revised vote pattern studied by the Public Accounts Committee in 1963, and referred to in the previous paragraph, amalgamated these items for the first time and the text used in the 1964-65 Main Estimates for Department of Finance Vote 15 was:

> Contingencies—Subject to the approval of the Treasury Board, (*a*) to supplement the paylist provisions of other votes; (*b*) for miscellaneous minor or unforeseen expenses; and (*c*) for awards under the Public Servants Inventions Act; including authority to re-use any sums repaid to this appropriation from other appropriations.

The text of Vote 15 remained the same in the 1965-66 Main Estimates but was changed in the 1966-67 Main Estimates to:

> Contingencies—To supplement other votes and to provide for miscellaneous minor and unforeseen expenses not otherwise provided for including awards under the Public Servants Inventions Act, subject to the approval of the Treasury Board, and authority to re-use any sums repaid to this appropriation from other appropriations.

In the 1967-68 Main Estimates tabled on May 9, 1967 the vote appears under the departmental heading of the Treasury Board as Vote 5 reading as follows:

> Contingencies—Subject to the approval of the Treasury Board, to supplement other votes for paylist and other requirements and to provide for miscellaneous minor and unforeseen expenses not otherwise provided for including awards under the Public Servants Inventions Act, and authority to re-use any sums allotted for non-paylist requirements and repaid to this appropriation from other appropriations.

The purpose of the Contingencies vote is to cover miscellaneous minor and unforeseen expenses and to supplement other votes. One of the principal reasons why other votes need supplementing is unexpected salary requirements resulting from general salary increases or the filling of vacancies in the establishment faster than anticipated. By having such a vote available the Treasury Board is able to instruct departments to provide in their estimates only for known requirements and not to include any cushion against unexpected obligations.

Under normal conditions the amount required is not large, but in the past three years the annual provision has been substantial:

1964-65	$ 46 million
1965-66	71 million
1966-67	110 million

This has been due mainly to the large-scale salary increases throughout the government service over the past few years.

Members of the Public Accounts Committee have indicated concern that such large sums are placed in the hands of the Executive for the supplementing of the appropriations of the various departments and after considering the matter at its meeting on November 23, 1966 the Committee included the following in its Thirteenth Report 1966-67 presented to the House on March 1, 1967 (see Appendix 1, item 54):

> that there be no change in the Treasury Board's procedure whereby it is the agency which determines the Government's overall cash requirements in stated areas, e.g., salary increases. However, once this determination is completed and the individual departmental needs established, the Committee believes that the additional amount required by each department should be made the subject of a supplementary estimate prepared by the department concerned for submission to Parliament for its consideration and appropriation in the usual manner.

56. *Supplementing parliamentary appropriations.* In paragraph 142 of our 1966 Report we drew attention to the weakening of parliamentary control over expenditure when appropriations containing provisions for the spending of revenue received during the year may be supplemented, without parliamentary authority, when the revenue received is in excess of the revenue estimated. We cited the case of the Department of Veterans Affairs appropriation for Treatment Services—Operation of Hospitals and Administration, where for six years from 1960-61 to 1965-66 revenue had exceeded estimated revenue and where in five of these years a portion of the excess revenue was used to supplement the sums voted by Parliament. We recommended that use of revenue be limited to the amount of estimated revenue set forth in the appropriation.

No change was made in 1966-67 and the wording of Department of Veterans Affairs Vote 30 remains the same in the 1967-68 Main Estimates.

Another example is now cited, this time from the Department of National Defence appropriations. The wording of these appropriations provided authority to spend revenue received during the year from:

(1) sale to military personnel of clothing and kit items;

(2) assistance rendered to the United Nations, any party of the North Atlantic Treaty Organization, or any provincial or municipal government;

(3) charges made pursuant to regulations under the National Defence Act for the provision of (*a*) accommodation and food to members of the Canadian Forces, (*b*) food to messes and institutes of the Canadian Forces, and (*c*) medical and dental care to dependents of members of the Canadian Forces.

The estimated amount of this revenue together with the estimated amount recoverable from repayment for material supplied or services rendered, for which the appropriation was not intended to provide, was shown in the supporting details of the Estimates for Defence Services as $60,344,999, the amount appropriated being the net of the estimated expenditure and the estimated revenue. Revenue credited to the vote during the year and completely expended amounted to $61,654,014 or $1,309,015 in excess of the estimate. The departmental appropriation was therefore supplemented by this amount.

We reiterate our view that to restore parliamentary control over expenditure in these cases, three figures—estimated gross expenditure, estimated revenue and net amount appropriated—should appear in the appropriation itself and the amount of revenue used to supplement the net amount appropriated should be limited to the amount of estimated revenue shown in the appropriation.

57. *Departmental operating accounts.* The Royal Commission on Government Organization recommended a wider use of revolving funds and working capital advances and in April 1966, following a study of the use of revolving funds in the government service, the Treasury Board issued a Management Improvement Policy circular entitled "Working Capital Advances". This circular encourages a considerably broader use of revolving funds than that contemplated by the existing legislation. For instance, section 11 of the circular states, in part, that "when requesting the establishment of, or an amendment to, a working capital advance, it may be desirable, considering the nature of the advance and in the interests of flexibility of operations, for departments to request authorization in respect to that advance, that (*a*) surpluses or portions thereof, be carried over to subsequent years; . . . and (*d*) capital equipment, used in an operation controlle by an advance, be financed from the resources of the advance so that the cost of the equip- ment is recovered over its useful life through charges made for services rendered or good supplied."

The acquisition of capital assets through an operating account completely remove the expenditure on such capital assets from parliamentary control. Three examples o this—the Queen's Printer's Advance Account, the National Film Board Operatin Account and the working capital account of the Central Data Processing Service Bureau— are referred to in paragraph 202 of this Report. These organizations are established t service all government departments and agencies which, in a sense, are captive customer having little choice but to do business with them and having little or no control over th prices charged by them.

As explained further in paragraph 202 of this Report, these organizations are no dependent on appropriations of Parliament for the acquisition of capital equipment an are limited only by the dollar ceiling placed on the operating account by the governin legislation.

The objective of recovering the cost of equipment over its useful life through charge for services rendered or goods supplied is a most desirable one. However, to achieve th by financing the cost of the equipment from operating accounts is, in our opinion, u desirable from the important standpoint of parliamentary control. The objective coul be attained without affecting parliamentary control if adequate memoranda accoun were set up, proper financial statements were produced and the estimates prepared in su a way that departments being serviced continue to be provided with sufficient funds pay the total costs of the services, with the servicing organizations being required contribute to the budget the equivalent of normal depreciation on the capital asse employed.

58. *Loss due to non-completion of contract.* Under a hog price support program undertaken in 1958 and ended in January 1960, when a deficiency payment method of subsidization was adopted, the Agricultural Stabilization Board acquired 114.2 million pounds of canned pork luncheon meat and 8.3 million pounds of canned hams at a cost of $74 million. By October 1960 the Board had disposed of all but 36.6 million pounds of the canned products which had been purchased at a cost of $22.8 million. As of that date, a company dealing in food products contracted to purchase, for export only, the entire stock for $6,983,000. The purchaser agreed to take delivery and to pay the Board in full for the canned hams by January 15, 1961 and for the canned pork luncheon meat by June 30, 1961.

The company failed to comply with the terms of the contract, taking delivery of only 2.7 million pounds of canned hams and 21.6 million pounds of canned pork luncheon neat for which it paid $4,404,000. The Board was thus left with 12.3 million pounds of he canned products which it disposed of by selling 7.6 million pounds to the Department of External Affairs for emergency relief abroad and 3.5 million pounds on the narket, while the remaining 1.2 million pounds were destroyed because the meat had become unfit for human or animal consumption. The proceeds from these transactions otalled $2,036,000 but the Board incurred additional costs totalling $536,000 for storage, reight, etc.

Had the company taken delivery of, and paid for the products in accordance with he terms of the contract the Board would have received an additional $2,579,000 from he company. Therefore its net loss due to failure of the contractor to complete the conract was $1,079,000.

The action, if any, to be taken against the contractor in respect of this loss is resently under consideration by the Department of Justice.

59. *Prairie Farm Emergency Fund.* This Fund is operated as a special account ithin the Consolidated Revenue Fund to record transactions under the Prairie Farm ssistance Act, R.S., c.213. Under the Act a levy of 1% is imposed on the price of grain ırchased by licensees under the Canada Grain Act, R.S., c.25, and the moneys collected e credited to the account. Awards are made to eligible farmers in areas affected by crop ilure in the provinces of Manitoba, Saskatchewan and Alberta and the Peace River istrict of British Columbia. During the year collections amounted to $10,994,000 and vards to $3,437,000, resulting in a surplus of $7,557,000 compared with a surplus of .295,000 in 1966 and a deficit of $367,000 in 1965. Since the inception of the Fund in 39 awards have exceeded collections by $182,000,000 and a total of $193,000,000 has en charged to departmental expenditure.

In our 1966 and previous Reports we referred to the existence of several unsatisctory conditions in the administration of the Act concerning which a number of recom-

mendations had been made. These were discussed by the Public Accounts Committee in 1966 and are as follows:

(1) the Board of Review, established under the Act to decide questions concerning eligibility for awards and other relevant matters, be required to keep minutes which would disclose its policy and reasons for its decisions;

(2) the permanent staff of the Prairie Farm Assistance Administration be placed under the Public Service Commission;

(3) eligibility for awards of all marginal land on which crop failures continuously occur from year to year be eliminated;

(4) no awards be paid to a farmer occupying part of a section of land if the average yield of wheat of the relative part of the section is 12 bushels or more per acre. (Under present rules, a farmer occupying part of a section of land is entitled to an award even though the yield of his land exceeds 12 bushels per acre if the other occupant of this particular section has a yield low enough to bring the average yield for the section below 12 bushels per acre);

(5) section 7 of the Act which requires every award to be made in the month of December be repealed;

(6) all farmers in an area affected by crop failure be required to complete cultivated acreage reports when a municipality makes an application for assistance. (The present system of processing cultivated acreage reports through the employment of a large number of inspectors is expensive and does not ensure accuracy); and

(7) as a condition precedent to a farmer having a right to receive an award, he be required to set forth in his permit book, at the time he receives it, a statement of grain on his farm. (New permit books are issued to farmers in July of each year before the commencement of harvest. If a farmer disclosed the amount of grain he had in storage on the farm at the time he received his new permit book, then the number of bushels that were subsequently harvested could be determined).

In its Seventh Report 1966-67 the Public Accounts Committee stated that it is important that these matters be rectified and recommended that appropriate legislation be introduced as soon as possible (see Appendix 1, item 38).

On March 31, 1967 the Minister of Agriculture advised the Public Accounts Committee that item (1) had been implemented; that it was desirable that items (2), (3), (4) and (5) be implemented but this was essentially a matter of legislative priority; and that as there was some doubt as to the practicability of items (6) and (7) the implications of these recommendations were being studied.

60. *Salaries and wages paid for work not performed.* In our two previous Reports, references were made to payments aggregating approximately $450,000 per annum by the Canadian Broadcasting Corporation to employees for scheduled hours during daily or weekly tours of duty which were in excess of the actual hours of attendance.

The payments were made in accordance with the provisions of the various union agreements and the Corporation regards payment of compensation calculated in this manner as proper, having regard to the effect of scheduling requirements for its present studio facilities, the availability of artists, the exigencies of actuality broadcasts and the nature of broadcast program production.

The Public Accounts Committee considered this matter with officers of the Corporation at its meeting on October 25, 1966, and while recognizing that the payments must continue to be made in accordance with the provisions of the union agreements, it recommended that such payments be eliminated as and when the present union agreements come up for renewal (see Appendix 1, item 45).

There has been no change in this situation during the past year, similar payments having continued to be made by the Corporation.

Some of the union agreements are due to be renewed in March and June 1968 but we are advised by the Corporation that "this situation is largely due to circumstances beyond the realm of collective bargaining" and "the practice of early release of staff will be reviewed to explore ways of holding personnel to their scheduled tours of duty".

61. *Agreement between Canada, the Province of Quebec and the City of Montreal for the holding of the Canadian Universal and International Exhibition, Montreal, 1967.* Paragraph 226 in the Crown Corporations section of this Report describes the operations of the Canadian Corporation for the 1967 World Exhibition during the past year and summarizes the basis of the overall plan for the Exhibition. The fifth revision of this plan, which was approved by the Governor in Council and the Lieutenant-Governor in Council under the provisions of the Act, forecast a deficit of $157 million at the conclusion of the Exhibition. A sixth revision of the overall plan indicating an anticipated ultimate deficit of $211 million was approved on September 28, 1967.

An agreement between Canada, Quebec and Montreal confirming acceptance of the egislation establishing and governing the Corporation was executed on January 18, 1963 and contains clauses outlining certain "settlements" between the Corporation and the hree governments after the closing of the Exhibition on October 29, 1967. As these settlements" appeared to us to be couched in very general terms, we suggested to the nanagement in 1964 that in order to avoid complications in the ultimate interpretation f the relevant clauses the Corporation's legal officers should discuss these matters with he federal and provincial government departments concerned, with a view to having he intent of the agreement more precisely stated. We have repeated the suggestion each ear since.

A year ago a committee consisting of representatives of the three levels of government was formed to deal with unresolved matters concerning the closing of the Exhibition nd the winding up of the Corporation. We are informed that this committee is not yet n a position to recommend any course of action to resolve the major problems arising rom the agreement. As joint auditors of the Corporation, we are hopeful that clarification of the various clauses in this January 18, 1963 agreement will have been completed y the time the Corporation closes its accounts for the year ending December 31, 1967.

62. *Banking arrangements of the Canadian Corporation for the 1967 World Exhibition.* Section 13 of the Canadian Corporation for the 1967 World Exhibition Act, 1962-63, 12, provides that:

> The Corporation shall maintain in its own name one or more accounts in a chartered bank designated by the Minister of Finance with the approval of the Minister of Finance of Quebec.

Early in 1963 a chartered bank was designated as the banker for the Corporation and a second chartered bank was named as one with which operating accounts might be kept.

The banking business of the Corporation was handled by these two chartered banks until October 1966 when the Governor in Council approved entry by the Corporation into contracts with a third chartered bank and with a financial institution other than a chartered bank for the provision of banking service on site during the Exhibition.

Although the designation of the first two chartered banks as the bankers for the Corporation by the Minister of Finance and the Minister of Finance of Quebec remains, the Corporation in November 1966 transferred the greater portion of its banking business from these banks to the third chartered bank and to the other financial institution. At December 31, 1966, the year-end of the Corporation, funds were on deposit as follows:

in the designated chartered banks	$ 54,000
in the third chartered bank	6,300,000
in the other financial institution	6,600,000

One of the terms of the agreements entered into with the third chartered bank and the other financial institution is that the Corporation is to pay a service charge of ½% per month, calculated monthly, on any amount by which the average daily balance is less than $2,500,000. There was no such undertaking to the two designated chartered banks.

In our opinion the banking arrangements of the Corporation are not in accordance with section 13 of the Act. Moreover, this is the first time to our knowledge that a government corporation has used any Canadian institution other than the Bank of Canada or a chartered bank as a banking agent or depositary (see paragraph 226 of this Report).

63. *Disposal of surplus plant.* In March 1964 the Minister of Defence Production was authorized to solicit and negotiate bids for the sale of three plants operated by Canadian Arsenals Limited. Bids were invited for each of the plants, the prospective purchasers being required to demonstrate a capability to manage manufacturing facilities involving military equipment, to state their intention to retain the defined military explosive manufacturing capabilities and to indicate the proposed use of the remaining plant capacity. Only the De Salaberry plant, Valleyfield, Que., was sold at that time, reference to which was made in our 1965 Report.

One of the other plants on which bids were invited in 1964 was the Val Rose plant near Valcartier, Que. The original cost of this plant's land, buildings, machinery and equipment was $22,786,000 and over the previous twelve years its operating deficit had totalled $5 million, exclusive of any charge for depreciation of its buildings and equipment. Future annual losses of approximately $600,000 were forecast.

Two bids were received for this plant and the Department carried on negotiations with the firms involved for several months. One of the prospective purchasers, a well known chemical and munitions manufacturer, offered $3,150,000, representing abou

65% of the current appraised value of the plant, plus the book values of inventories at the date of take-over. Payment was to be made in full at the time of sale and an undertaking was to be given that the plant's military capability would be retained for ten years at no cost to the Crown. This offer was rejected.

The Department continued negotiations with the second firm and succeeded in having its offer increased to $3,150,000 with the same undertaking to take over the inventories at their book value and to maintain the plant's military capability for ten years at no cost to the Crown. Payment, however, was to be spread over a period of eight years. These negotiations resulted in sale of the plant in December 1966 to a subsidiary of the firm.

During the two and one-half year period following rejection of the offer of $3,150,000 for the plant, Canadian Arsenals Limited incurred operating deficits of $515,000. There was also a loss to the Crown of potential interest earnings of $350,000 on the sale proceeds.

Our review of this transaction disclosed that in May 1966 while negotiations were going on, Canadian Arsenals Limited revised its forecast of future annual deficits of $600,000 at the Val Rose plant and stated that through increased efficiency, mechanization of operations, concentration of facilities and firmer demands based on integrated defence plans, the plant would operate at no loss in future (see paragraph 223 of this Report).

64. *Potential losses on inventories held in the Defence Production Revolving Fund.* A description of the Defence Production Revolving Fund is given in paragraph 261 of this Report.

Our examination of the Fund disclosed two instances where it is apparent that losses have been or are going to be incurred which can only be covered by parliamentary appropriations for the purpose. These are:

1. The inventory of raw quartz crystals on hand at March 31, 1967 was acquired in the early 1950s at a cost of $6,078,000. Synthetic quartz crystals have come into general use since the inventory was acquired, practically eliminating the demand for natural quartz. The proceeds of a few test sales during the year averaged 22% of original cost and it would appear that there will be a loss of at least $4.5 million.
2. A shortage of $1,140,000 with respect to cobalt stolen several years ago is revealed by the balance sheet of the Revolving Fund. Amounts totalling $49,000 had been recovered to March 31, 1967 and further recoveries are expected. However, it appears inevitable that there will be an ultimate loss of not less than $600,000.

65. *Unauthorized use of the Defence Production Revolving Fund.* In last year's Report (paragraph 60) we drew attention to the practice of using the Defence Production Revolving Fund to finance the loan portion of the cost of purchasing machinery under the Defence Industry Modernization Program, the remaining 50% being charged to Department of Defence Production Vote 5. We expressed the opinion that, since section 16(2)(c) of the Defence Production Act, R.S., c.62, expressly prohibits the making of loans from the Fund to assist in the acquisition of capital equipment, the advances from the Fund aggregating $2.75 million to March 31, 1966 had been made without authority.

Use of the Fund for this purpose continued throughout 1966-67 with additional advances of $7.62 million being made and repayments of $370,000 being received, bringing the total loans outstanding to $10 million at the year-end.

The practice has been discontinued in 1967-68 and funds for the loan portion of the assistance granted are provided in Department of Industry Vote L65. However, the Fund has not yet been reimbursed for the unauthorized advances which, as noted above, amounted to $10 million at March 31, 1967.

66. *Crown corporation expense borne by departmental appropriation.* Included in the charges to the Department of Energy, Mines and Resources vote for Departmental Administration are legal fees of $11,896 incurred primarily for title searches of property owned by a coal company on Cape Breton Island. These searches were undertaken on departmental authority in order to facilitate the takeover of this property by a then proposed Crown corporation which has since been established as the Cape Breton Development Corporation. As these expenditures relate directly to the purposes for which the Corporation was set up, it is our opinion that they, and similar payments in 1967-68 amounting to $27,000 at the date of this Report, should have been recorded as accounts receivable and recovered from the Crown corporation.

67. *Financing of the 1967 World Exhibition.* Existing legislation provides for grants by Canada, the Province of Quebec and the City of Montreal to the Canadian Corporation for the 1967 World Exhibition not exceeding $20 million, $15 million and $5 million respectively, a total of $40 million. These grants were received by the Corporation during the period March 14, 1963 to August 2, 1965.

Since payment of this $40 million, the further cash requirements have been met by the purchase by Canada of securities issued by the Corporation and guaranteed by Canada and the Province as authorized by section 12 of the federal Act.

Borrowings from Canada for this purpose totalled $175 million at March 31, 1967 and had reached $200 million at September 30, 1967. These loans or advances are shown as assets on the Statement of Assets and Liabilities of Canada but unless the existing legislation is amended to provide grants additional to the $40 million already provided, the Corporation will not have the cash resources to repay the indebtedness. These loans bear interest which the Corporation paid in the amount of $3,552,000 during the year and which Canada has included in its revenue for 1966-67 (see paragraph 50 of this Report).

In commenting on this method of financing in our 1965 Report we stated that because of the existing limitation on grants, changes in the legislation would be necessary before the additional substantial grants required could be made. The Public Accounts Committee discussed this matter with officers of the Department of Finance on June 16, 1966 and in its Seventh Report 1966-67 expressed its concurrence with our view and recommended that amendments to the existing legislation be placed before Parliament and the Legislature of Quebec so that the additional grants could be made by the parties concerned, namely Canada, Quebec and Montreal (see Appendix 1, item 37).

68. *Method of financing capital expenditures of the Canadian Broadcasting Corporation.* The funds required by the Canadian Broadcasting Corporation for its capital expenditures have since April 1, 1964 been provided in the form of loans from Canada. Loans outstanding at March 31, 1966 amounted to $26,705,000 of which $1,371,000 was repaid in 1966-67. Additional loans amounting to $30,381,000 were provided in 1966-67 bringing to $55,715,000 the amount outstanding at the end of that year.

These loans are repayable by the Corporation in equal annual instalments over 20 years at interest rates varying from $5\frac{1}{4}\%$ to 6% per annum and are included as an asset in the item "Loans to, and investments in, Crown corporations" on the Statement of Assets and Liabilities of Canada (see paragraph 178). The interest on these loans must be paid, and the loans must eventually be repaid, with funds provided by parliamentary appropriations. The procedure being followed violates a long-standing principle of the Department of Finance that assets which are non-interest or non-revenue-producing be charged to expenditure at the time of acquisition or construction. The Public Accounts Committee in its Seventh Report 1966-67 expressed the opinion that expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada (see Appendix 1, item 36). The procedure has been commented on in previous Reports and is further dealt with in paragraph 196 of this Report.

The wording of Canadian Broadcasting Corporation Vote 1, which provided for the net operating requirements of the Corporation for 1966-67, did not disclose that $1,371,000 was included for repayment of these loans and that $2,203,000 had also been included to meet interest charges. The estimates that have been submitted to Parliament in respect of the operating requirements of the Corporation for 1967-68 likewise do not disclose the amounts required for repayment of loans and for interest charges. Receipt of the interest by the Department of Finance is recorded under the heading "Non-tax revenues—Return on investments" (see paragraph 50 of this Report). This has the effect of inflating the recorded amount of both revenues and expenditures of Canada in violation of generally accepted accounting principles.

69. *Indirect compensation to chartered banks.* It is the practice of the Government to maintain large balances on deposit with the chartered banks, receiving interest only on balances in excess of an aggregate of $100 million. This practice has been commented on in previous Reports and the Public Accounts Committee on three occasions has expressed the view that if banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, 1953-54, c.48 (see Appendix 1, item 20).

The new Bank Act, 1966-67, c.87, received Royal Assent on March 23, 1967. Section 93 of the Act reads in part:

> 93. (2) The bank shall not make a charge for cashing a cheque or other instrument drawn on the Receiver General or on his account in the Bank of Canada or in any other bank, or for cashing any other instrument issued as authority for the payment of money

out of the Consolidated Revenue Fund, or in respect of any cheque or other instrument drawn in favour of the Receiver General, the Government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the Receiver General.

(3) Nothing in subsection (2) shall be construed to prohibit any arrangement between the Government of Canada and the bank concerning interest to be paid on any or all deposits of the Government of Canada with the bank.

Subsection (3) of this section is evidently designed to permit continuation of the practice of compensating banks indirectly for services provided to the Crown.

The precise wording of this subsection had been included in Bill C-102 introduced in the 1965 Session of Parliament and Bill C-222 introduced in the 1966-67 Session of Parliament, each of which was entitled "An Act respecting Banks and Banking". After considering this wording the Public Accounts Committee in its Seventh Report 1966-67 expressed the opinion that it did not meet the recommendation of the Committee and it asked the Department of Finance for explanations on three points:

(1) why it considers that an amount of $100 million should be left on deposit with the chartered banks free of interest;

(2) why, if it considers that the chartered banks should be compensated for the service provided by them to the Government, it has not recommended that subsection (1) of section 93 of the Bank Act, 1953-54, c. 48, be amended to permit this; and

(3) what other means of compensating the banks for services rendered were considered and why they are being discarded.

As far as we are aware, the Department of Finance has not yet provided the explanations requested by the Committee.

In our opinion subsection (3) of section 93 of the Bank Act, 1966-67, c.87, does not provide legal authority for officers of the Department of Finance to undertake to leave substantial amounts on deposit with the chartered banks without payment of any interest.

70. *Errors in Public Service Superannuation Account pension and contribution calculations.* For a number of years we have pointed out in our Reports to the House that our annual test audit has disclosed a high incidence of error in the superannuation accounts. We have been recommending since 1959 that the Superannuation Branch, when determining annuities to be paid, should verify contributions made in relation to salary earned and the documents on file. This procedure would automatically indicate errors made at any time during the period of service and reduce the possibility of error in calculating the annuity.

The Public Accounts Committee in several of its reports has recorded its concern that this matter was taking so long to be corrected. On June 16, 1966 the Comptroller of the Treasury appeared before the Public Accounts Committee and the Committee in its Seventh Report 1966-67 noted that "immediate steps were being taken to provide that the internal auditing procedures of the Superannuation Branch include an examination of the employee's contributions in relation to his salary and the documents on file

along the lines recommended by the Auditor General". The Committee also recorded its understanding that "the introduction of this particular check should eliminate the majority of the errors and requests the Auditor General to continue to keep it fully informed on this matter" (see Appendix 1, item 17).

Our test audit during the year ended March 31, 1967 disclosed a higher incidence of error than in the previous year and an analysis of the errors indicated that the greater portion of them had arisen in 1965 and 1966. As superannuation files often remain in active use in the Superannuation Branch for several months after commencement of an annuity, our practice is to defer examining them until they are returned to the file room. As a result, very few files to which the new procedures had been applied by the Superannuation Branch were examined by us during the year. These new procedures should result in a reduction in the number of errors in future.

Reference has been made in our Reports for the past four years to the lack of verification of the correctness of contributions reported to the Central Pay Division in respect of employees of various Crown corporations. Contributors' accounts in this category, which numbered only 4,353 at December 31, 1959, had increased to approximately 9,000 by December 31, 1966. We have been informed by the Central Pay Division that all accounts have been verified and reconciled to December 31, 1965 and that all have been posted to December 31, 1966.

71. *Limited competition for government business.* Engraving of postage stamps, other revenue stamps and labels, bonds, paper currency, passports and other documents and forms required by the Government has been carried out almost exclusively by two firms for many years.

On May 6, 1966 we suggested to the Department of Finance that because of the limited competition to which these two firms appeared to be exposed, and in order to check the reasonableness of their prices, provision for an audit of their costs might be included in their respective contracts. We were informed that the suggestion was well worth consideration and it was to be looked into forthwith. Having received no further information, we inquired on May 16, 1967 as to what action had been or was likely to be taken but have received no reply.

Where there is a very narrow field of competition for government contracts there is always a danger that excessive profits may be made at the expense of the taxpayers. The Government is in a position to insert a clause in a contract providing for a government audit of the costs of carrying out the contract and in our opinion this is an instance where such a clause is important.

72. *Special assistance to fishermen.* Reference was made in our 1966 Report (paragraph 64) to a program of financial assistance to fishermen whose income from fishing in the calendar year 1965 was less than their income from fishing in 1964 due to circumstances beyond their control. The assistance program had been implemented by the Department of Fisheries with the co-operation of the Unemployment Insurance Commission. In so doing, not only was the basic requirement, that 1965 income from fishing

be unfavourable in relation to the 1964 income, not confirmed but in addition a flaw in the procedures resulted in overpayments by the Department.

Assistance of like nature was not continued in 1966-67, although payments amounting to $152,462 were made with respect to applications received prior to April 1, 1966. During the year the aggregate of known overpayments was established as $67,895. Demands on the fishermen involved have resulted in overpayments of $37,414 being recovered, leaving an outstanding balance of $30,481. No further recovery action has been taken or is contemplated by the Department at this time.

73. *Subsidization of Fishermen's Indemnity Plan.* Reference has been made in our Reports for several successive years (1966, paragraph 65) to two accounts, the Lobster Trap Indemnity Account and the Fishing Vessel Indemnity Account, maintained in connection with the Fishermen's Indemnity Plan which was introduced in 1953-54. Although the Plan was intended to be self-supporting (except for its administrative costs which are met through parliamentary appropriations) both accounts have recorded net deficits from their inception.

The deficit for 1966-67 amounted to $5,095 in the Lobster Trap Indemnity Account, compared with $3,335 in the preceding year, and to $113,438 in the Fishing Vessel Indemnity Account, compared with $52,665 in 1965-66. These deficiencies were charged to Department of Fisheries Vote 17g.

The number of fishermen availing themselves of the Lobster Trap Indemnity facilities has been decreasing steadily which is illustrated by the fact that premium revenue, at an all-time high of $44,000 in 1961-62, reached an all-time low of $1,552 in 1966-67.

Three years ago we were informed that the Department of Fisheries was engaged in a detailed study to ascertain the extent to which factors other than weather might have been operative in causing the all-time high deficit of $168,000 in the Fishing Vessel Indemnity Account in 1963-64 and to determine what further changes in the regulations are practicable or to what extent the premium rates should be revised. Although consideration is being given to revisions in the premium rate structure, the situation remains largely unchanged.

Vote 540 of Appropriation Act No. 5, 1955, *1955, c.60,* as extended by Vote 527 of Appropriation Act No. 6, 1956, *1956, c.32,* provided for the establishment of one or more special accounts for the purpose of assisting fishermen to meet abnormal capital losses Under this authority an additional account, the Fixed Fishing Gear and Shore Installations Indemnity Account, was introduced under regulations effective February 1, 1966 These regulations relate to insurance on fixed gear such as various types of traps and herring weirs, buildings such as boathouses, fish holding or salting sheds, etc., and miscellaneous equipment while in storage in a shore installation. For the 1966-67 fiscal year claims paid amounted to $19,391 and net premiums to $5,726, resulting in a deficit of $13,665 which was also charged to Department of Fisheries Vote 17g. This element of the Fishermen's Indemnity Plan, established for a trial period of one year, has been extended for an additional year in order to obtain more data on which to base a decision as to its future.

74. *Costs resulting from forfeiture of fishing vessel.* In May 1965 a Prince Edward Island fisherman was charged with several offences under the Fisheries Act, R.S., c.119, and the Lobster Fishery Regulations. He pleaded guilty to all charges, was fined on each count and his fishing vessel was forfeited to the Crown.

A chartered bank which had made loans to this fisherman under the Fisheries Improvement Loans Act, 1955, c.46, and whose loans were guaranteed by the Minister of Finance of Canada applied for a court order declaring that its interest in the vessel was of the opinion that the Court's decision made it obligatory to pay the full amount of interest. The judgment of the County Court was in favour of the bank, $1,538 being declared as its interest in the vessel. This decision was appealed by the Crown but the Supreme Court of Prince Edward Island dismissed the appeal.

In May 1966 the forfeited vessel was sold for $1,100, the highest bid received as a result of a public invitation to tender. The bank then applied for the payment of the amount of $1,538, stating, however, that if this amount were greater than the proceeds of the sale, it would accept the proceeds less the normal cost of sale. As the Department was of the opinion that the Court's decision made it obligatory to pay the full amount of the bank's declared interest, payment of $1,538 was made in October 1966 with the result that a direct loss of $438 was incurred because of the forfeiture.

Actually this loss to the Department of Fisheries was not necessarily an additional loss to the Crown because the Minister of Finance, under his guarantee of the fisherman's loans, might have had to pay this amount to the bank in any case. Nevertheless, steps should be taken to ensure that the Crown, in obtaining forfeiture of a fishing vessel, does not expose itself to liability for debts of the fisherman in excess of the sale value of the vessel.

In addition to the $438 loss to the Department, it paid out $573 to a barrister in connection with the bank's application for an order of the County Court and a further $1,325 to a barrister in connection with the Crown's appeal against the judgment of the County Court. Furthermore the Minister of Finance was required to reimburse the bank for its legal costs amounting to $600. Thus legal costs of $2,500 plus court costs, plus the time of officers of the Department and of the Department of Justice, were all expended in order to decide in effect whether the Department of Fisheries should retain the value of the seized vessel as revenue of the Crown, with the Department of Finance paying the amount of the fisherman's loan under its guarantee to the bank, or whether the Department of Fisheries' potential revenue was to be diverted, thus saving the Department of Finance from payment of the similar amount under its guarantee of the bank loan.

It would seem desirable that officers of the Crown be more conscious of the varied interests and responsibilities of the Crown, and co-operate to the end that the Crown's best interest may be served without resort to fruitless but costly legal procedures.

75. *Continued upkeep of facilities by the Maritime Marshland Rehabilitation Administration.* In our 1966 Report (paragraph 66) reference was made to the substantial costs incurred under agreements entered into in 1949 with the provinces of New Brunswick and Nova Scotia, pursuant to the Maritime Marshland Rehabilitation Act,

R.S., c.175. We expressed the belief that the provisions of the Act indicated that Parliament had intended that the provinces assume responsibility for operation and maintenance of the works concerned without undue delay following their completion. In no case had a province been required to do so, and in fact arrangements had been made for New Brunswick and Nova Scotia to assume financial responsibility for upkeep only after a transfer period expiring March 31, 1970.

The situation remained unchanged at March 31, 1967. During the year then ended a further outlay of $557,000 was made by Canada for administration, operation and maintenance. An additional $881,000 was charged to construction of works and acquisition of equipment, reflecting a marked increase over recent annual expenditures for such purposes.

With effect from April 1, 1967 the Province of Nova Scotia has taken over operational responsibility for 34 out of 86 projects and the Province of New Brunswick on May 1, 1967 took over operational responsibility for 11 out of 39 projects. In all these cases, however, Canada is to continue to bear all operation and maintenance costs until the end of the transitional period on March 31, 1970.

76. *Expenses of Canadian Council on Rural Development.* In our 1966 Report (paragraph 69) reference was made to the establishment of the Canadian Council on Rural Development late in 1965. It was observed that the expenses of $9,956 incurred to March 31, 1966 in respect of meetings and other activities of the Council were charged to a "project" set up for the purpose under Department of Forestry Vote 35 which provided for "Payments in respect of projects and programs under the Agricultural Rehabilitation and Development Act and payments to Provinces pursuant to agreements entered into under that Act". This was done despite the fact that another appropriation of the Department (Vote 25) provided funds for the administration of the Act, and ordinarily an advisory service is regarded as an administrative function.

The same procedure was followed in 1966-67, with $66,575 being charged to Vote 35, the text of which remained unchanged. However, specific provision of $100,000 for purposes of the Council is contained in the Details of Services relating to Vote 25 in the Main Estimates of the Department of Forestry and Rural Development for 1967-68.

Our 1966 comment also referred to honoraria of $4,200 paid to members on an ex gratia basis because prior to a 1966 amendment the governing legislation entitled members to be paid only for their travelling and living expenses incurred while absent from their ordinary place of residence in the course of their duties. We expressed the view that payments of honoraria prior to the amendment required legislative sanction, Executive authority being insufficient because an area of government already regulated by legislation was involved. During the current year prior to the effective date of the amendment further honoraria amounting to $3,650 were paid. Steps to give retroactive effect to the amendment have not been taken.

77. *Inadequate control of stores at northern locations.* In our 1965 Report and again in 1966 (paragraph 112) we referred to the unsatisfactory control of and accounting for

stores at northern locations. In its Eighth Report 1966-67 the Public Accounts Committee expressed concern and urged the Department of Indian Affairs and Northern Development to establish adequate controls on all stores in the North with the least possible delay (see Appendix 1, item 43).

In 1965 particular reference was made to operations at Frobisher Bay, N.W.T. Last year we noted the extent to which the situation at this location had improved, but observed that it was not yet fully satisfactory. As at October 31, 1966 action to dispose of surplus or obsolete stores had not been taken, the value of stores had not been fully determined, and the amount of the working capital advance required to finance the stores operation had not been established.

We have been informed that a program to identify and segregate surplus or obsolete stores and to consider what economical disposal action should be taken is to be implemented late in 1967. Meanwhile the value of the stores has been determined and recorded at approximately $440,000, and the Department sought approval for an increase in the working capital advance to absorb the value of stores in excess of the $200,000 allotment for the Frobisher Bay operation. The Treasury Board declined to approve the request, stating that it is not necessary to have stocks carried at a dollar value in order to have an effective inventory control over them. While this is true, parliamentary control over expenditure is weakened if there exists a substantial inventory of stores items for which a dollar accounting does not have to be given.

Although there is no inventory of stores at Yellowknife from which materials and supplies are requisitioned, there is an active stores operation involving the function of receiving goods ordered for specific use in the region, storing these goods until required on the job, and redirecting or shipping them as required. When we examined the operation during the year, it was found that inadequate storage space resulted in most of the building supplies being placed outside of the warehouse with security being virtually non-existent. Furthermore, it was evident that personnel not associated with the stores operation had unlimited access to warehouse stocks without reference to the stores staff, so that in this area also security was lacking.

An examination during the year at Inuvik, where the stores operation is intended to be similar to that at Yellowknife, revealed that over the past several years a substantial inventory, valued by departmental personnel at a minimum of $300,000, has been built up by retaining goods acquired through annual appropriations. It was apparent that there was virtually no control over these stores. Checking of the physical accuracy of quantities proved impossible because of the absence of accurate stock records and the fact that similar items were not always stored together in the same warehouse, of which 13 were used for the purpose. It was evident that, because of the inadequacy of the records and the unsatisfactory storage conditions, purchase orders could be issued for materials and supplies which were already in stock. An inspection made by the Department shortly after our visit confirmed these findings. Departmental records indicate that corrective action has been or is being taken.

An examination of the stores operation at Fort Smith in April 1967 showed that there had been an improvement over conditions found in a 1965 examination. Excepting minor discrepancies normal to an activity of this nature, a complete physical inventory taken in October 1966 showed stocks to be in agreement with the stock records.

78. *Inadequate accounting and financial control procedures, Fort Smith, N.W.T.* In our 1965 Report (paragraph 103) we commented on a number of serious deficiencies in the accounting and financial control procedures in the combined district and regional office of the Department of Northern Affairs and National Resources (now the Department of Indian Affairs and Northern Development) at Fort Smith. Departmental officials subsequently informed the Public Accounts Committee that the situation could be attributed to the fact that for a number of reasons the Department had experienced great difficulty in recruiting clerks and accountants for Fort Smith. They felt, however, that a recent administrative reorganization, including the introduction of positions for financial and management advisers, would result in procedures being improved to acceptable standards.

In April 1967 a follow-up examination at the now separated district and regional offices at Fort Smith revealed that the condition of the accounting records and procedures was substantially the same as in 1965. At the regional office it was observed that:

1. Internal control over cash receipts was still lacking in that one employee was permitted to receive all cash, control all pre-numbered forms including those used for billing purposes, prepare billings, control the accounts receivable ledger, and deal with accounts receivable write-offs.
2. Departmental billings were still being released without review and approval by a responsible officer. There had apparently been little if any action to collect accounts totalling $9,900 outstanding for more than one year. Cases were noted of lengthy delays in the issue of billings after the performance of services, and measures to ensure that all work orders were billed to other government departments or private interests, where applicable, were inadequate.
3. Prior to May 1966 billing and collection services were performed on behalf of the Department of National Health and Welfare. When that Department assumed this responsibility, outstanding accounts amounting to over $25,000 were left with the Fort Smith office for collection. It was not evident that any follow-up action has since been taken on these accounts or that payments have been received with respect to them.
4. In 1965 we pointed out that in some circumstances the Department has been authorized to sell electric power to private consumers and that responsibility for this activity had been largely delegated to area administrators. It was suggested at that time that central control by the regional office over meter readings, billings and collections was desirable. Our current review disclosed that there was still no overall control exercised at Fort Smith. In the absence of a complete record of private consumers and of the amounts outstanding in each consumer's account, it could not be established whether all consumers were being billed regularly or at all.
5. In 1965 we reported that the settlement of outstanding accounts payable was considerably in arrears, with delays of several months being not uncommon. An improvement as at March 31, 1967 was noted but it was evident that the situation at that point was

not indicative of the state of affairs at other times during the year, and that it had been accomplished by the expedient of temporarily assigning experienced personnel from elsewhere in the district to assist.

Matters drawn to the attention of the Department as a result of our examination at the district office in April 1967 were as follows:

1. Although, as previously reported, control of motor vehicle licence plates, issued on behalf of the Government of the Northwest Territories at various locations, was purported to be maintained at Fort Smith, it was found that no accounting was being made of unissued plates at the year-end. There was thus no assurance that all revenue from this source was being brought to account.
2. Although the district office maintains a record of all business licences issued in the Northwest Territories, it was not evident that there was provision for ensuring that all new businesses are recorded and required to purchase licences.
3. The Department had accepted responsibility for the administration of loans to university students on behalf of the Territorial Government, but in the absence of formal accounting records the loans outstanding were not readily ascertainable and there was little evidence of follow-up action on overdue repayments.

We have been informed that a special "study team" was organized to proceed to the Mackenzie District in the early autumn of 1967. Its terms of reference included an on-the-spot appraisal of the critical comments that stemmed from our April 1967 examination.

79. *Sale of land to the City of Longueuil, Que.* In our 1966 Report (paragraph 113) reference was made to the fact that the Royal Commission on Government Organization, in its report on "Real Property", recommended that consideration be given to consolidating in a single statute legislation having general application to the acquisition and disposal of real property. The Royal Commission also envisaged the disposal of all surplus federal property through a single agency. These recommendations are not included among those which have received Executive approval.

The same 1966 paragraph pointed out that although the general procedure is in fact for surplus property to be disposed of through a central agency, Crown Assets Disposal Corporation, under the provisions of the Surplus Crown Assets Act, R.S., c.260, nevertheless later legislation, the Public Lands Grants Act, R.S., c.224, permits departments to dispose of land without a declaration of surplus. An instance was cited of a substantial direct sale during the 1965-66 fiscal year when the Department of Northern Affairs and National Resources disposed of certain lands under its administration to the City of Longueuil for $870,000, which had been established as the "fair market" valuation.

Although present policy is that property surplus to federal needs be disposed of on the basis of current market value, exceptions to this policy are dealt with specifically on their merits by the Treasury Board if it is decided that special considerations outweigh the general policy. During the current year the Department of Indian Affairs and Northern Development obtained Executive authority to grant additional lands to the City of Longueuil for street purposes for the nominal sum of one dollar conditional on the lands being used for no other purpose.

A number of other departments and agencies are also responsible for federal lands and other assets in the Longueuil area, and major problems are currently associated with much of this property. Among other things, the Province of Quebec has taken without agreement or compensation approximately 1,500,000 square feet of land to form integral approaches to the Jacques Cartier Bridge. The Province has also taken possession of an additional 2,357,549 square feet for service roads connecting the municipal street system to a nearby provincial highway. A minimum value of $4 million is ascribed to this land. In the same connection, remainder lands are considered to have been rendered useless or of little value by virtue of the road allowances taken by the Province.

Following the fiscal year-end, a special committee of representatives of the various departments and agencies directly involved was convened to determine the financial and legal problems in relation to the land and assets occupied and used by the Province of Quebec in Longueuil and Montreal. We understand that no disposals in the Longueuil area will be sanctioned during the deliberations of this committee (see also paragraph 96 of this Report).

80. *Accounting for advances to Indian bands for housing construction.* The Department of Indian Affairs and Northern Development administers a program for "the Development of the Physical Community on Indian Reserves" which received Executive approval in January 1966. Included in this program is provision for the construction of over 12,000 houses on Indian reserves during the ensuing five years. The anticipated 1966-67 outlay was provided for in Vote 35 of the Department which in part is for "assistance to Indians and Indian Bands for the construction or acquisition of housing and other buildings and related works, land and equipment".

Bands that are regarded as capable of managing their own affairs and indicate an interest in doing so are encouraged by the Indian Affairs Branch to assume responsibility for most of the administrative services normally provided by the Branch. In accordance with this policy, certain conditions were established during the year under which the Department would be prepared to transfer the responsibility and related financial resources for the construction of Indian houses on reserves.

One of the provisions relating to the assuming by a band of responsibility for housing construction was that the Department would advance 25% of the funds for the total annual program at the start of construction, the balance to be made available as and when required following the submission by the band of a certified statement of account. In accordance with this provision, approximately $100,000 was paid during 1966-67 from Vote 35 and permitted to remain as a charge to that appropriation although no accounting for the advances had been made by March 31, 1967.

In our opinion the advances should not become a final charge to Vote 35 until an accounting is made.

81. *Inadequate accounting and financial control procedures, Indian agencies.* The Department of Indian Affairs and Northern Development maintains a substantial

number of field offices in connection with the administration of its programs for the Indian population. Seventy-one of these establishments are district offices or Indian agencies which deal directly with band councils.

During the year we made audit examinations at a number of the agencies and our findings were reported to the Department. Critical comments were numerous, indicating a need for strengthened financial control over field activities. Of particular concern were:

1. UNSATISFACTORY CASH HANDLING PROCEDURES. In some instances the procedures for the control of cash received through the mail were inadequate. In one case unauthorized unnumbered receipt forms were being used to acknowledge over-the-counter cash receipts. It was found at another location that three items of cash could not be accounted for, and that a sub-office, being unaware that receipts should be transferred regularly to the main office of the agency, was holding moneys collected during the period March 1964 to June 1966.

2. LACK OF PROPER INTERNAL CONTROL. The main criticism in this connection was that in some cases the division of duties among office personnel placed too much responsibility with regard to the handling of cash, billing and accounts receivable procedures in the hands of one individual.

3. UNSATISFACTORY ACCOUNTS RECEIVABLE PROCEDURES. In a number of cases it was apparent that steps to collect overdue accounts were inadequate, and arrears of long-standing were not uncommon.

4. UNSATISFACTORY STORES AND EQUIPMENT CONTROL PROCEDURES. At some locations it was found that the stock control records were inadequate, instructions with respect to the frequency of physical checks of stores and equipment had not been followed, or stock-taking had been carried out in an irregular manner.

5. INADEQUATE PAYROLL RECORDS AND PROCEDURES. Registration of attendance was unsatisfactory in some instances. In one case the time records had been destroyed prematurely and in consequence the payroll records could not be verified.

6. UNSATISFACTORY WELFARE ADMINISTRATIVE PROCEDURES. The procedures followed at several agencies resulted in overpayments and, to a lesser degree, underpayments. At one agency it was noted that provision for assistance in band budgets was not used although band members were receiving welfare payments from federal funds.

7. AUDIT REPORTS NOT PROVIDED BY BANDS PERMITTED TO MANAGE REVENUE MONEYS. Section 68 of the Indian Act, R.S., c.149, enables the Governor in Council to permit a band to control, manage and expend in whole or in part its revenue moneys. Among the conditions normally attached to this step is the requirement that there be an annual audit of the band's financial records, and that a copy of the auditor's report be supplied to the Department. Our examinations indicated that in some cases these requirements are not being met.

8. UNSATISFACTORY PROCEDURES WITH RESPECT TO LOANS MADE UNDER SECTIONS 64(h) AND 69 OF THE INDIAN ACT. Our examinations indicated a general lack of positive action in the collection of amounts due under loans. In this connection the departmental headquarters' loan records show that outstanding loans made from the Consolidated Revenue Fund under section 69 of the Act totalled $1,112,000 at March 31, 1967, at which time principal repayments aggregating about $400,000 were in arrears. At the same date outstanding loans from the capital funds of bands under section 64(h) amounted to $183,000, of which $124,000 was in arrears.

We have been informed by the Department that steps have been taken to improve procedures and controls at most of the agencies examined and that the adequacy of welfare administrative procedures is being reviewed.

82. *Admiralty courts.* Last year's Report (paragraph 73) made reference to weaknesses in the administration of the Admiralty courts that had been disclosed by our examinations, including inadequate records, intermingling of federal and provincial funds, retention of interest earnings by some of the registrars, fees improperly paid to the provinces, etc. In our report thereon to the Department of Justice we stressed the need for more careful definition of the financial arrangements for these courts and for the establishment of adequate financial records.

Examinations during the past year have disclosed little improvement in the administrative arrangements for these courts. The Department was so advised in July 1967, although it was realized there may not have been sufficient time for the necessary changes to be implemented. The Department was also informed that one of the registrars, who was a salaried employee of Canada, had retained fees of office amounting to $2,165 between the time of his appointment, December 1, 1965, and December 4, 1966. The propriety of this was questioned, particularly with respect to the amount of $1,124 which related to the period after May 14, 1966 when the rules of the courts were changed to provide specifically that these fees be paid into the Consolidated Revenue Fund when the registrar is a salaried employee of Canada. We have since been advised that the registrar has acknowledged his indebtedness in respect of the amount of fees collected subsequent to May 14, 1966 but that there is no legal basis for collecting the amount of $1,041 relating to the prior period.

83. *Existence of annuitants.* In last year's Report (paragraph 75) we stated that the Government Annuities Branch, in response to observations we had made on the possibility of payments being continued after annuitants were deceased, proposed to obtain confirmation of the existence of some one-third of the persons to whom annuities were being paid directly. On the basis of the results obtained from this comprehensive test, they were to determine whether there is practical value in obtaining periodic life certificates from annuitants. Accordingly, during the year the Branch mailed certificates to 28,000 annuitants.

The final results of the test are not yet available. However, at November 30, 1967 overpayments disclosed by the examination totalled $11,700, including one of $6,100 resulting from continuation of payment of a life annuity for ten years after the death of the annuitant. Recoveries of $8,100 had been made and payments of annuities were being withheld in 25 cases which were still under investigation. The estimated cost of the test was $16,700 and consideration was being given as to whether the results obtained warranted the extension of the confirmation to the balance of the annuitants and the establishment of a regular periodic confirmation of all annuitants.

In our view periodic confirmation of the existence of annuitants is essential and we think the results already obtained from the test confirm this. The obtaining of life

certificates is, and always has been, an established requirement in most Commonwealth countries. In the United Kingdom the obtaining of life certificates is an established procedure of all pension-paying authorities.

84. *Subsidies to Canadian Government Annuity agents.* All agents employed in the sale of government annuities are appointed as "temporary agents" and their remuneration is set by the Minister of Labour under authority provided by the Government Annuities Regulations. Agents are paid a percentage of the premiums collected on annuity contracts, subject to a maximum commission with respect to each contract. With effect from July 1, 1966, the Minister has authorized a monthly floor or guaranteed income for each agent working full-time (38 in 1966-67), based upon the individual average monthly earnings in 1965-66. The monthly guaranteed income was 80% of average monthly earnings for the period July to September 1966 and 90% for the period October 1966 to March 1967.

The introduction of the guaranteed income feature arose out of the fact that, due to less favourable interest rates, government annuities have not been priced competitively with annuities offered by insurance companies for at least two years. This has resulted in reduced annuity sales with a reduction in agents' commission earnings. Unless earnings could be maintained at a reasonable level it was evident that the Annuities Branch would lose some members of its sales force to other employment. The Branch was anxious that its experienced sales force be not depleted until a decision had been made by the Executive as to whether the interest rate structure of government annuities should be brought into a competitive position or, as recommended by the Royal Commission on Government Organization, the sale of government annuities should be discontinued.

The cost of this guaranteed monthly income arrangement in 1966-67 was $43,000 or approximately 25% of the actual commission earnings of $173,600. An examination of subsidy payments disclosed:

(a) five agents who earned more commissions in 1966-67 than in the previous year ($26,247 against $24,470) also received, because of the monthly guarantee, a total of $2,241 in subsidies; and

(b) eleven agents received subsidies totalling $8,907 which brought their individual 1966-67 incomes above those of the previous year, although commissions earned were less by $5,717.

The guaranteed income arrangements were continued until November 30, 1967 when, by direction of the Cabinet, the promotion of the sale of government annuities was discontinued. Commissions will not be paid for new annuities after that date.

85. *Municipal winter works incentive program.* Incentive payments from the inception of the first municipal winter works program in 1958 have amounted to $216 million.

References were made in our 1965 Report and our 1966 Report (paragraph 74) to this program under which Canada, by agreement with all of the provinces and the terri-

tories, has undertaken to pay a percentage of direct labour costs incurred on site on accepted winter works projects undertaken by municipalities, Indian bands and unorganized settlements.

Our 1965 Report drew attention to the inadequacy of the audit of claims against the Federal Government being made by or on behalf of some of the provincial auditors. We reported also that our test examinations indicated that the effectiveness of the program in providing benefits to those whom it was designed to assist was somewhat less than its potential and that there was need for a more specific spelling-out of the terms of the agreements. Also drawn to attention was the fact that instances of fraudulent and irregular practices had been disclosed by some of the audits carried out by provincial auditors.

Our 1966 Report stated that our examinations in 1965-66 indicated that verification of claims by or on behalf of the provincial auditors was being extended. It also stated that one province continued to be reluctant to permit members of the Audit Office to examine the records of its municipalities, that again no examinations of these records had been made, and that examinations of the other provincial and municipal records and of reports of provincial auditors relating to claims for the 1964-65 program showed a continuation of substantially the same irregular and questionable practices as were noted in the preceding year's examinations. We also reported that for the 1966-67 program the terms and conditions which had been proposed to the premiers of the provinces had imposed greater restrictions than those of prior agreements with a view to preventing any possible misunderstanding of the intent of the program and to curbing the questionable practices which had arisen.

The Public Accounts Committee in its Thirteenth Report 1966-67 expressed concern with the practices which had developed and stated that there should be a closer liaison between the administering department and the auditors examining the winter works expenditures for the provinces (see Appendix 1, item 53). It also requested the Auditor General "to continue to watch the situation closely and advise the House thereon in due course".

Our examinations in 1966-67 in respect of the 1965-66 program indicated that, with one exception, satisfactory examinations of expenditures are being made by or on behalf of the provincial auditors, and that substantially the same questionable practices noted in the preceding years' examinations, mostly arising out of varying interpretations of the terms and conditions, continue to be encountered.

Because of the time lapse which occurs between completion of projects by the municipalities and submission of final claims by the provinces, the bulk of the reimbursements to the provinces is made in the fiscal year following that in which the costs are incurred by the municipalities. Accordingly, our examination of claims and records in any fiscal year pertains to winter works carried out in the preceding year. Therefore, while the greater restrictions proposed were accepted by the provinces and territories, the extent to which the questionable practices referred to have been curbed as a result of the revisions to the agreements in 1966-67 cannot be determined until examinations in 1967-68 are completed.

86. *Joint auditing arrangements with respect to provincial corporations financed from federal funds.* With the authority of the Governor in Council, the Minister of Manpower and Immigration has entered into agreements with the provinces of Alberta, Saskatchewan, Ontario, Nova Scotia and Prince Edward Island whereby each province procures the incorporation of a corporation to facilitate and promote research into the utilization and development of manpower resources. It is expected that agreements will also be entered into with the other provinces. The agreements provide that the costs of incorporation and all costs of operation shall be borne by Canada and that the accounts shall be open to inspection by Canada and the provinces and "shall be subject to audit at least once a year, by the Auditor General of Canada". No funds had been paid to these corporations to the end of the year.

We have been informed that steps are being taken to appoint the Auditor General of Canada and a public accounting firm as joint auditors of each of the provincial corporations.

87. *Travel by private motor car.* In paragraph 77 of our 1966 Report it was noted that when servicemen use their personally-owned automobiles, in lieu of public transportation facilities, for their own convenience on temporary duty trips, special leave, etc., they are allowed to claim reimbursement of their expenses on the basis of all-inclusive mileage rates which cover transportation, meals and accommodation. We further noted that as no receipts are required to support reimbursement there was no direct evidence that the trips were made in the manner claimed. We suggested that the Department require claims for mileage allowances at the all-inclusive rates to be supported by a special certificate of an officer who has knowledge that the trip was actually undertaken as claimed.

We were subsequently informed that, in the opinion of the Department, to carry out this suggestion would require the certifying officer to conduct an investigation of that aspect of each claim, and that such a procedure would not be warranted unless there was evidence of widespread submission of false claims.

By an amendment dated May 11, 1967 to the Service regulations, which authorize the use of automobiles for temporary duty travel, a serviceman may now use "a private motor car". Previously he was required to use his "personally-owned motor car". In consequence of the change in the regulations, service orders, which required that the claim for mileage allowance show the serviceman's "licence number which has been examined by the authorizing officer to establish the validity of the licence and his ownership of the vehicle", were revised in October 1967 and this instruction deleted. The new instruction merely requires that the claim show the private motor car licence number.

As the Department is not prepared to require evidence that a trip was actually made in the manner claimed, we cannot establish that all claims paid are bona fide.

88. *Use of departmental vehicles.* In our 1966 Report (paragraph 83) we noted that the use of Department of National Defence vehicles continued to be at variance with

the Treasury Board's general policy and that a study had been under way since November 1964 with a view to eliminating conflicts between present practices and Treasury Board policy.

Although the Department issued new administrative orders in this connection on September 6, 1966, they still permit certain non-military use of vehicles, such as by dependants for recreation and shopping, which is contrary to Treasury Board policy.

We had also noted that in 1965-66 a special study was being made of passenger cars and chauffeurs maintained by the Department of National Defence for the use of senior military and civilian officers. This study has not yet been completed and cars and chauffeurs continue to be assigned to senior military officers in Ottawa for transportation to and from their residences and for their use during the day.

89. *Special benefits to personnel released from Canadian Forces.* In our 1966 Report (paragraph 78) we noted that Order in Council P.C. 1964-684 of May 7, 1964 approved "an Order governing special benefits for officers and men released or denied re-engagement solely by reason of reductions in establishments". This Order in Council was revoked and replaced by Order in Council P.C. 1964-15/1239 of August 13, 1964 which, although it contained the preamble cited above, authorized the inclusion of medical releases in the category of persons who were entitled to the benefit. An amendment to the Order, authorized by Order in Council P.C. 1966-4/106 of January 19, 1966, terminated authority to pay special benefits for releases on medical grounds after September 1, 1965.

During the two-year period from May 7, 1964 to May 6, 1966, when the plan terminated, some 3,322 members of the Forces had received special benefits at an estimated cost of $9.8 million.

Subsequently 41 members released on or before May 6, 1966 received benefits amounting to $214,000. In addition three senior officers were paid $32,037 on an ex gratia basis because their releases had been delayed for practical service reasons beyond May 6, 1966 and three non-commissioned officers received benefits amounting to $10,310 on an ex gratia basis for medical discharges approved after the September 1, 1965 cut-off date, because of administrative delays. This brought the total number who received special benefits to 3,369 and the total estimated cost to $10.1 million.

In January 1967 the Treasury Board, following approval of these medical releases by the Governor in Council on an ex gratia basis, requested the Department to review the service files so that all remaining cases might be identified and considered. Accordingly, a study was undertaken to determine the officers and men who had a reduced medical category and a subsequent delayed release for the same medical defect responsible for the reduced medical category and it is estimated that there are 40 such cases.

90. *Payment of re-engagement bonuses.* As stated in paragraph 80 of our 1966 Report, approximately 64,000 personnel were paid re-engagement bonuses aggregating $22,728,000 in 1965-66 pursuant to Order in Council P.C. 1966-1/335 of February 22, 1966.

During the period from April 1, 1966 to July 1, 1967, the date on which the payment of the bonus terminated, an additional 20,750 personnel received bonuses amounting to $18,434,000, bringing the total amount paid out since the inception of the plan to $41,162,000.

Our examination this year revealed eight instances where re-engagement bonuses were paid despite the fact that at the time the documents for payment were being processed the Department was aware that the service members were being released and would not be re-engaged. It is obvious that these payments did not contribute to the purpose of the plan which was designed to help stem the loss of skilled personnel.

91. *Payment of re-engagement bonuses to servicemen entitled to benefits for premature release.* In last year's Report (paragraph 79) we noted that, during the course of implementing reductions in establishments in connection with the reorganization of the Forces, difficulty had been encountered in retaining skilled personnel and, as an incentive to encourage this category of servicemen to remain in the Forces, the Queen's Regulations and Orders for the Canadian Forces had been amended by Order in Council P.C. 1966-1/335 of February 22, 1966 to provide, effective February 1, 1966, for a re-engagement bonus of $200 for each year of the re-engagement period to personnel of the Regular Forces at first and subsequent re-engagements.

We reported that approximately 463 personnel on strength on February 1, 1966, who were either in receipt of or eligible for the special benefit for premature release, had also been paid re-engagement bonuses for the portion of the re-engagement from the effective date of the regulation to the date of their release, and we observed that in our opinion it was illogical to pay to the same servicemen benefits for both premature release and re-engagement.

A total of 494 service members have received, in addition to the special benefit for premature release, re-engagement bonuses totalling $28,500.

92. *Pension awards effective at an early age.* In previous Reports (paragraph 81 in 1966) reference was made to the number of servicemen being retired with immediate annuities at an early age, in some instances under 30, and we reported that 752 servicemen aged 40 and under were released during 1965-66 with immediate annuities aggregating $1,020,000, ranging in amounts from $308 to $3,863.

During the year an additional 436 servicemen in this category were retired with annuities totalling approximately $664,102.

The Public Service Superannuation Act provides for deferred annuities payable at age 60 where persons retire prior to the specified minimum retirement age. As previously reported, the Department of National Defence had considered the advisability of introducing deferred pensions, under the provisions of the Canadian Forces Superannuation Act, similar to those available to civilian employees, but its review of the Act was deferred following the decision to integrate the Forces.

The review has now been completed and the Department has submitted its proposals, including the matter of deferred pensions, to a committee of the Cabinet (see Appendix 1, item 15).

93. *Responsibility for the provision and operation of research vessels.* In paragraph 94 of our 1966 Report we drew attention to the fact that the Department of National Defence had been providing and operating naval auxiliary vessels engaged in scientific research for the Defence Research Board, other government departments and agencies, and outside organizations. We had requested the Department to consider the general question of the responsibility for the provision of ships of this nature because of the importance of proper allocation of costs to user departments under the Treasury Board's new concept of financial management.

In the 1967-68 Estimates the provision for the cost of operating four of the research vessels was transferred from the Defence Services appropriation to an appropriation of the Defence Research Board and the funds required for acquisition of a new vessel were included in another of the Board's appropriations. However, provision for the operating and maintenance costs of a fifth vessel (being used almost exclusively by the Department of Energy, Mines and Resources) continued to be made in the Defence Services vote. Furthermore, the two Departments have agreed that the cost of modernizing the vessel, estimated at $725,000, is to be provided for in appropriations of the Department of Energy, Mines and Resources while the costs of maintenance and operation for a period of at least five years are to be provided for in the Defence Services appropriation of the Department of National Defence.

This type of arrangement results in an improper allocation of costs and is also unsatisfactory in that the total capital cost of the vessel will not be available in the records of either Department.

94. *Excessive advance payments under contracts.* Two instances were noted during the year in which excessive advance payments had been made under contracts. In our opinion these serve to illustrate that the parliamentary control provided by section 35 of the Financial Administration Act is circumvented when funds are advanced to suppliers in amounts that cannot be justified by accumulated costs, goods received or services rendered. Particulars of these two cases are as follows:

1. In March 1966, the Treasury Board authorized the Department of Defence Production to enter into a contract with the United States Government for the re-engining of Cosmopolitan aircraft on behalf of the Department of National Defence at an estimated cost of $6.7 million (see paragraph 99).

   Although there was no requirement that advance payments be made, the total estimated cost of the contract was deposited with the Treasurer of the United States in March 1966, with instructions to purchase 90-day United States treasury notes on behalf of Canada.

2. An agreement for the procurement of Oberon class submarines from the United Kingdom provided, inter alia, that:

   (a) Progress payments to reimburse the (U.K.) Navy Department for Expenditure incurred under the Agreement will be paid by the Minister as follows:

   (1) During the month of April 1964 the Minister agrees to pay not less than the estimated total Expenditure under the Agreement to the Navy Department to 31st of March 1964.

   (2) During the month of April 1964 and quarterly thereafter, as necessary, the Minister agrees to pay not less than one-quarter of the annual estimated expenditure for each financial year. Claims for payment of phased advances will be submitted by the Navy Department on the first day of each quarter. The claims will be based on the estimated spread of costs (suitably revised periodically as necessary) communicated by the Navy Department.

(b) Statements representing the actual costs brought to account under the Agreement, will be forwarded quarterly by the Navy Department. The total expenditure recorded on the statements will be offset against the phased advance payments.

Although at March 31, 1967 the most recently revised "spread of costs" to completion of the contract in 1969-70 called for advances totalling the sterling equivalent of only $30.2 million, the Department of National Defence advanced from the 1966-67 appropriation an additional $1.5 million in April 1967 which brought the total advance to $31.7 million. This exceeded the actual costs of $26.9 million incurred to March 31, 1967 by $4.8 million, which we regard as excessive.

While the April advance payment, made in accordance with the contract under which the Minister agrees "to pay not less than", meets the requirements for payment in section 32(*b*) of the Financial Administration Act, it should not have been charged to a 1966-67 appropriation in view of the provision with respect to lapsing in section 35 of the Act.

In this particular instance the funds in question need not have lapsed as they could have been used to liquidate some of the unpaid accounts chargeable to the Department of National Defence Vote 15, which at the year-end were in excess of $7 million.

95. *Surplus overhauled aircraft engines.* In the course of our examination of declarations of surplus equipment by the Department of National Defence to Crown Assets Disposal Corporation, three cases were noted which illustrate the problems of phasing-out defence equipment, its subsequent disposal and the losses involved.

1. In April 1960, in preparation for the introduction of the CF-104 aircraft, the Department planned to phase-out the Sabre 6 aircraft by September 1963, later extended to November 1963. As a consequence, the overhaul program for the Sabre Orenda engines was gradually reduced, the last contract being in 1962-63 under which 70 engines were overhauled between April 1962 and March 1963.

   The last 77 engines originally acquired in 1955 at a cost of over $4.7 million were disposed of in 1966-67, and our review of the surplus declarations revealed that 39 of these had never been used since their last major overhaul in 1962-63. The cost of overhauling these 39 engines was approximately $390,000, all or part of which might have been saved had there been a greater cut-back in the engine overhaul program during the phase-out period. Of these engines, which had cost $62,000 each and which were in an unused state after a $10,000 overhaul, 37 were sold to the original manufacturer for $800 each and two, which had been ruined by exposure, had to be sold as scrap.

   Of the 38 engines which had been used since the last overhaul, 19 had to be sold as scrap because they had been left exposed to the weather since 1965 and had deteriorated to the point where they were of no value as engines. One of these engines had been used for only 6 hours. The remaining 19 engines were sold to the original manufacturer for $800 each.

2. In late 1963 the one C-5 North Star aircraft in service was reconditioned so as to provide "unquestioned structural integrity" to the end of 1964-65, with retention beyond March 1965 to be subject to annual review. However, the intended review was not made and the three spare engines associated with its use underwent their normal major overhaul in early 1965-66 at a cost of approximately $40,000.

   Early in 1966, after an appraisal of the condition of the aircraft, it was estimated that $298,000 would be required for structural inspection and repairs and $45,000 for refurbishment to V.I.P. standards in order to obtain a further 1,500 hours of use. It was therefore decided to discontinue the use of the aircraft.

This aircraft, with the three spare engines, had been acquired by the Department in 1950 at a cost of $1,226,000. On being declared surplus in June 1966, the aircraft and the three spare engines (unused since last overhaul) were sold for $49,000.

3. Acting upon a request from the External Aid Office, the Department of National Defence in November 1966 reported three engines as surplus to requirements. These engines, which had been acquired at a cost of $10,000 each in 1943, had not been used since their last overhaul in March 1965. The External Aid Office was interested in acquiring them for the Government of India.

This engine powers the Expeditor aircraft which is still in service and there are 368 engines either in service or on hand as spares which continue to be overhauled, as required. The three units disposed of in November 1966 (with no running time on them since their last overhaul) cannot, therefore, be considered to have been surplus to requirements. This being the case, Executive authority should have been obtained for their sale and the net proceeds amounting to $20,250 credited to non-tax revenue instead of to the Department's "Surplus Crown assets" suspense account.

96. *Delay in sale of Crown properties caused by a provincial expropriation.* The Department of National Defence has two adjacent properties in Montreal. One is the Craig Street armoury built in 1883 on a 1.5 acre parcel of land leased from the City of Montreal for as long as it is required for military purposes, and the other known as the Champ de Mars property is a 4.23 acre parcel of land which had been leased to the City of Montreal since 1889.

The military need for the armoury was a continuing one and the Department decided to try to arrange an exchange of property in order that it would have title to the property on which the armoury stood.

In 1962 the City of Montreal expressed an interest in acquiring the Champ de Mars property as the site for a new court house and the Department proposed that 1.5 acres of the Champ de Mars property be exchanged for the 1.5 acre site of the Craig Street armoury. Order in Council P.C. 1964-1103 of July 16, 1964 authorized the exchange and at the same time the Department declared surplus to Crown Assets Disposal Corporation the remaining 2.73 acres of its Champ de Mars property indicating that the City of Montreal was interested in acquiring it.

In April 1965 the Province of Quebec informed the Department that it would require a portion of the Craig Street armoury site for the new cross-town highway program, and stated that it wished to occupy the armoury as a temporary jail. Although there was still a military need for the property, the Department, on April 27, 1965, agreed to occupancy by the Province as of May 1, 1965 on the understanding "that the Province undertakes to immediately enter into negotiations with Crown Assets Disposal Corporation for the transfer of administration and control of the property from the Crown in right of Canada to the Crown in right of the Province of Quebec".

The Department vacated the armoury and on April 28, 1965 declared the property surplus to Crown Assets Disposal Corporation, indicating that the Province of Quebec was interested in acquiring it and noting that title to the land was in the process of being acquired from the City of Montreal.

Before the contemplated exchange with the City of Montreal was completed, the Province of Quebec on October 19, 1965 registered an expropriation affecting a portion of the armoury site. The action made it impossible for the City to convey title to the Crown or for Crown Assets Disposal Corporation to proceed with the sale. Consequently, the two reports of surplus covering the residue of the Champ de Mars site and the armoury were recalled at the request of Crown Assets Disposal Corporation and cancelled by the Department in 1966.

How a provincial expropriation could prevail against land on which a federal building is located is not clear.

In the opinion of the Department of National Defence the simplest solution to the dilemma would be for the Province to abandon the expropriation affecting the Craig Street armoury property. The City of Montreal could then complete the land exchange which would enable the Department of National Defence to give the Province good title to the property. This opinion was communicated to the Province in January 1966 but there has been no response.

The problems involved in the disposal of these two properties, together with a number of other properties in the Montreal area, are now being considered by a special advisory committee established by the Treasury Board which has been requested to submit recommendations for an overall solution. (See paragraph 79 of this Report).

97. *Hydrofoil development program.* In last year's Report (paragraph 85) attention was drawn to the rapidly increasing costs of the hydrofoil development program.

This program is for the development of an anti-submarine-warfare hydrofoil craft of some 200 tons capable of operating at high speeds in the open ocean. The concept of a hydrofoil craft, considered to be more economical to build and operate against submarines than conventional escort vessels, was developed by the Naval Research Establishment after several years of experimentation with hydrofoils.

In May 1963, after two years of engineering studies and model tests, a contract was awarded for the design and construction of a development prototype hydrofoil at an estimated cost of $9.1 million excluding the cost of sea trials and spares. At that time delivery was scheduled for April 1966. As the project progressed the estimate of final cost approved by the Treasury Board was revised as follows:

	Estimate of final cost		
Date of estimate	Hydrofoil	Fighting equipment	Total
April 1963	$ 9,100,000	$ —	$ 9,100,000
February 1964	11,326,000	—	11,326,000
March 1964	16,300,000	—	16,300,000
June 1964	16,300,000	4,355,000	20,655,000
November 1964	21,775,000	4,355,000	26,130,000
June 1965	28,759,000	7,441,000	36,200,000
April 1966	35,992,000	7,930,000	43,922,000
March 1967	39,874,000	10,132,000	50,006,000

Since 1966 the estimates have included a provision of $2 million for post-launch modifications. The cost of fighting equipment which is shown to have increased $2.2 million (28%) during the year now includes $1.5 million for items previously considered to be part of the hydrofoil itself. The overall increase of $6 million in the past year from $43.9 million to $50 million and a further one-year delay in the completion of the project are largely attributable to a fire aboard ship on November 5, 1966. The board which investigated concluded that the fire had resulted from the failure of a hydraulic line near a gas-turbine engine, the escaping hydraulic fluid being ignited by the engine.

In summary, the explanations given for the overall cost increase since April 1963 are:

(1) inexperience of the contractor in this new field which gave rise to underestimates o detailed design, engineering and production requirements;

(2) underestimates of sub-contract costs by both the contractor and the Department o Defence Production;

(3) underestimates of the volume of manufacturing work, increased requirements due t engineering refinements, delays in production, increased shipping and material costs, etc.

(4) fire damage, subsequent design changes and increased inspection and administration.

By September 1967, $38.7 million had been expended on the program, an increase o $7.2 million during the preceding twelve months. The Department advises that the shi launching has been re-scheduled for late 1968 and anticipates completion of the projec by mid-1970.

98. *Expenditure on an aircraft simulator.* In May 1963 work began on the construc tion of a second Argus aircraft operational flight and tactics trainer or simulator for th Department of National Defence, under a firm price contract in the amount of $3,172,00 In January 1964 the contract was terminated because of a general lack of funds in th Department of National Defence "which has been compelling us to adjust our genera operational posture to the extent that we can no longer justify completion of the pro curement".

It had been estimated that costs on termination would amount to $1.3 million, savin the Department $1.9 million on the contract as well as the cost of constructing a buildin for the trainer and installation costs. By April 1965 the contractor had claimed an received $1,395,000 in respect of the cost incurred, including a profit factor of 10%. Th final audited cost in April 1967, including estimated profit, amounted to $1,348,000 whic indicates an overpayment of $47,000. The contractor, however, disagrees with the audi findings.

The amount paid reimburses the contractor for his costs and profit at 10%, the rat used in negotiating the firm price contract. As the effect of this termination was t change the basis of reimbursing the contractor from firm price to cost plus, thus reducin his risk, it would have been appropriate for the Department of Defence Production t negotiate a reduction in the rate of profit.

During 1964 and 1965 materials acquired for this contract with a cost value c $490,000 were accepted by the Department primarily for its spare parts inventori while others valued at $115,000, together with a mock-up fuselage manufactured f

the trainer by another contractor at a cost of $282,000, were declared surplus to Crown Assets Disposal Corporation and sold for $3,162.

The Department's decision to cancel this contract resulted in expenditure of $1,677, 000 including the $47,000 in dispute at the year-end, which can reasonably be regarded as having little value to the Crown.

99. *The Cosmopolitan aircraft.* In late 1957 the Department of National Defence was considering acquiring turbo-prop aircraft of British manufacture of a type in general use in Canada. However, at about that time the United States manufacturer of the Convair 440 aircraft was replacing its original piston engines with turbo-prop engines on an experimental basis in order to improve performance and prolong the life of the airframe.

The Canadian subsidiary of the United States aircraft manufacturer advised that f the orders for the new aircraft were placed with them the parent company was prepared o transfer the manufacture of the Convair 440 aircraft to Canada, and proposed to nstall British manufactured Napier-Eland turbo-prop engines. This proposal was ccepted as, among other things, it would help alleviate an anticipated slump in the Cana- ian industry following completion of the production of the Sabre jet aircraft, and in March 1958 the Treasury Board authorized the purchase of ten Eland Convair 440 air- raft (Cosmopolitan). They were delivered between June 1960 and February 1961 at a nal cost of $23,260,000 which included $2,809,000 for additional tooling required for RCAF modifications and $1,520,000 for ten spare engines.

The Napier-Eland engine, which in 1958 had not yet been put into service, subse- uently proved to be unsatisfactory and by the end of 1962, when it had been replaced y all users except the RCAF, the manufacturer discontinued production.

In October 1965 when seeking approval of a re-engining program, the Department utlined the many problems experienced with the Napier-Eland engine: high main- enance costs; high rate of engine failure; greater frequency of scheduled overhaul hereby increasing maintenance costs; and the limited supply of engines which had rought about a sharp reduction in aircraft utilization. It was expected these problems ould soon force withdrawal of the Cosmopolitan aircraft from service.

In March 1966 the Treasury Board authorized a re-engining program for seven of he aircraft and a contract was entered into with the United States Government. The ontract was completed at an estimated cost of $6.7 million and the last aircraft returned o service one year later.

In summary, the acceptance for transport aircraft of an engine which had not been emonstrated as satisfactory in actual service resulted in abnormally high maintenance osts, a substantial reduction in aircraft utilization and a costly re-engining program.

100. *Purchase of surplus aircraft.* In July 1960 a regional airline purchased two, and ntracted to borrow a third, used Eland Convair 540 aircraft from a Canadian ma- nufacturer in anticipation of obtaining exclusive rights to an air route. While serving

this route for about a year in competition with another airline, it sustained serious financial losses attributable in part to difficulties experienced with the Napier-Eland engines. From information on file it appears that the manufacturer of the engines later made a settlement of $341,000 with the airline with respect to the engines on these aircraft. When it became apparent that the airline would not obtain exclusive rights to the route it returned the aircraft to the manufacturer on the grounds that the operating requirements of the airline had not been met, and that this was an essential condition to the purchase of the aircraft.

The manufacturer agreed to release the airline from its commitments when, on March 30, 1962, the Department of National Defence agreed to purchase all three aircraft and spares on a "where is as is" basis at a cost of $2,997,000.

These three aircraft were basically the same as the Cosmopolitan aircraft being operated by the RCAF and were powered by the same engines that the Air Force had already found to be unsatisfactory (see paragraph 99). Flying hours for the three aircraft at time of purchase by the Crown totalled 3,934 and a further 4,493 hours were accumulated prior to their disposal as surplus in May 1966 for $1,174,000.

Attention is drawn to the unusually low rate of utilization of these aircraft during their service with the RCAF which averaged only 30 hours per aircraft per month compared with an average of 63 hours per aircraft per month for Cosmopolitans during the year ended July 1967.

101. *Refit and improvement of HMCS Bonaventure.* The keel of this aircraft carrier was laid in 1942 and the hull was acquired from the United Kingdom in 1952. After completion by the original builder in 1957 she was commissioned as HMCS Bonaventure, the total cost being in the neighbourhood of $30 million.

In 1964 a mid-life refit and improvement program was planned and according to the estimate submitted to the Treasury Board in January 1965, the cost was expected to be:

Refit	$ 4,000,000
Improvements	2,300,000
Electronic equipment	1,500,000
Contingency	200,000
	$ 8,000,000

Tenders were invited and by the spring of 1966 contracts had been awarded for the supply of materials and equipment at a cost of about $2,230,000 and for the refit at a cost of $4,914,000 for specified work. This left $856,000 for contingencies and for about 10% of the known refit work which had not been included in the work specified in the refit contract because of insufficient time to complete the drawings and specifications or because the work could not be precisely described.

The refit began in April 1966 and it soon became apparent that the amount provided or contingencies would be inadequate. In November 1966 the Treasury Board approved an increase of $3.8 million in the estimated cost of the refit program as follows:

Repairs to boilers, main machinery, turbines, etc.	$ 1,612,000
Repairs to auxiliary machinery	600,000
Painting the ship's flight deck, sides, bottom and interior	400,000
An increase in the cost of replacing laundry equipment and deck landing control equipment	300,000
Rehabilitation of accommodation, stores, furniture, etc.	200,000
Increased shipyard costs	658,000
	$ 3,770,000

The Treasury Board subsequently authorized amendments to the refit contract nder which a total of $1,021,000 was spent for painting, an increase of $621,000 over the 400,000 provided in the revised program estimate.

The increase of $658,000 in shipyard costs included $48,000 to compensate for late elivery to the shipyard of materials purchased by the Department of Defence Production. hat Department has been unable to establish who was responsible for the delay. The 610,000 balance of the increase in shipyard costs was a consequence of the unexpected icrease in the work and the corresponding prolongation of the contract from April to eptember 1967.

The Department of Defence Production intended to award the main contract on the asis of a fixed price for specified work and fixed labour rates for additional work that ight become apparent as the refit progressed. To this end the Department included the llowing clauses in the contract:

Statement of Work

(c) [The contractor] will be required to undertake work arisings and defects resulting from the requirement of this contract for inspection and examination of ship and components. However, it is understood that such extra work will be the subject of separate negotiation and consequent contractual adjustment.

Basis of Payment

(b) Additional Work:

(i) Direct (Shipyard) Labour	$3.95 per hour
(ii) Drawing Office Labour	5.40 per hour
(iii) Material—negotiated costs plus	7.5% fee

Additional work (labour) will be introduced into the contract on a firm price basis by negotiating the number of hours and applying the applicable charge out rates, (i) and (ii) above which include labour cost, overhead and fee but excluding F.S.T. [federal sales tax]. Additional material will also be introduced into the contract on a firm price basis as per (iii) above plus F.S.T.

In August 1966 when it became apparent that the additional work would exceed by more than 200% the estimate of 200,000 hours that the Department had advised the tenderers it would use for tender comparison purposes, the contractor requested that the hourly direct labour charge-out rate be increased from \$3.95 to \$5.10. After reviewing the contract provisions the Department amended the contract to provide for payment of the higher rate for hours in excess of 210,000. To October 1967 this had increased the cost by over \$500,000.

In addition, although the rate of \$3.95 was stated in the contract to include overhead, and the new negotiated rate of \$5.10 included \$1.87 for overhead, it was agreed that the contractor would be paid "a firm price of \$2,828 per calendar day for services supplied to the ship subsequent to the present ship delivery date of 27 April, 1967". These services, including fire guards and utilities, are normal overhead items but shipyards, and particularly this contractor, customarily charge these costs directly to contracts. As the ship did not leave dry dock until September 12, 1967, this change will cost about \$390,000. As the main contract was originally awarded following competitive tender, the Department of Defence Production did not request full financial information at the time these increases were being negotiated.

Department of National Defence accounts do not provide an overall record of the costs of the refit. However, costs compiled from departmental files and memoranda accounts indicate that to November 1967 expenditures total \$11,492,000 with a further \$1,137,000 expected. These figures do not include the cost of materials supplied from stores, certain charges for freight, express, cartage, customs duty and sales tax, and costs of labour provided by departmental service or civilian staff together with appropriate charges for overhead.

102. *Additional costs of airfield traffic control installations.* In May 1963 a contract was awarded for the installation of airfield traffic control systems at nine RCAF stations at an estimated cost of \$180,550, later increased to \$183,110. The work at two of the stations had been cancelled in the meantime.

In the course of the work the contractor discovered that departmental records of landline circuits, installed some years earlier to connect control towers to remote points on the airfields and approaches, were unreliable and out-of-date. He therefore had to trace the circuits and test in order to identify them. The situation was further complicated by the unserviceability of some lines and the need to retest them after repair or replacement by the Crown.

The contractor claimed \$10,216 for this additional work which, following approval by the Treasury Board, was paid in January 1967, bringing the total amount received by the contractor for the seven installations to \$193,326.

103. *The counter-mortar radar.* During 1958 Canadian Arsenals Limited completed at a cost of \$805,000 the manufacture of a prototype vehicle-mounted radar system for locating enemy mortars, which had been designed by the National Research Council

In June 1960 Canada demonstrated this system in competition with two other NATO countries and one country which required 22 expressed interest.

Although another country was quoting about $70,000 for a similar radar unit, the Department of Defence Production in February 1961 sought and obtained Treasury Board approval in principle for the production of ten units for the Canadian Army at an estimated cost of $1,802,000, based on a price of $125,000 each plus $550,000 for the establishment of production capacity which it was expected would be recovered on the anticipated sale of the 22 systems. At this time the contractor was authorized to proceed with preproduction engineering and tooling subject to a financial limitation of $200,000.

In April 1961 the prospective foreign purchaser advised that it was no longer interested in further evaluation of the Canadian system as it had decided to purchase a prototype system from another country. Notwithstanding this, the Treasury Board confirmed its approval and authorized expenditures totalling $2,287,000 on preproduction costs and the production of ten systems, the contracts being entered into in August 1961. The reasons given in the departmental request to the Treasury Board for authority to enter into the contracts were that if the project were cancelled a termination payment of up to $200,000 would have to be made to the contractor who had begun the preliminary work in April 1961; technical experience and anticipated employment for about 200 Canadians for one and one-half years would be lost; and Canada's international reputation might be damaged as it had already been announced that production would be commenced to meet Canadian requirements.

The approved expenditure of $2,287,000 included $632,000 to be charged to Department of Defence Production Vote 69, 1961-62, for the establishment of production capacity although such assistance had previously been confined to companies that had been successful in outbidding foreign firms in the export market.

In March 1962 the country that had originally expressed interest in acquiring the 22 systems placed an order for one production model which was delivered in September 1962. One other system was sold to another government in October 1963.

On completion of the work, costs will have increased $2,087,000 over the original estimate because:

(1) of the unsuccessful attempt to shorten normal production time of 18 to 24 months, to 12 months in the hope of gaining a competitive advantage in the export market. This cost about $50,000, which was specifically provided for in the contract;

(2) the drawings and specifications prepared by Canadian Arsenals Limited and supplied to the contractor were incomplete and out-of-date as indicated by modifications and approved design changes amounting to $247,000;

(3) of items not included in the original estimate:

spare parts, maintenance equipment and manuals	$ 892,000
installation in vehicles	209,000
heat exchanger and power supply	144,000
sales tax on main unit	142,000
incidentals	59,000
	$ 1,446,000

(4) of production delays, overtime, testing, redesign, retooling and reworking caused by (1) and (2) above for which the Crown paid $344,000 including $116,000 paid in 1967-68.

As none of the costs of establishing production capacity were recovered through export sales, the total cost of acquiring ten counter-mortar radars for the Canadian Army will be about $3,889,000, exclusive of original development costs.

104. *Construction costs of under-water weapons range.* In September 1964 the Treasury Board authorized the construction of a building complex for the Department of National Defence—Navy at a cost not to exceed $490,000. Construction was planned in four phases, the Department of Public Works being responsible for phase one and Defence Construction (1951) Limited for phases two, three and four.

The contract for phase two, awarded in September 1965 in the amount of $296,200, included the installation of an under-water duct system encased in concrete. In October 1965 it was decided to change the design of the under-water installation. The contractor submitted a quotation of $93,000 for diving costs if the additional work had to be completed in 10 weeks or $45,000 if the work could be extended over a period of 18 weeks, materials, labour and equipment rentals on a cost-plus basis being extra. Since it was considered that 18 weeks was too long for completion and that by utilizing Navy divers a minimum of $45,000 could be saved, the contract was amended whereby the contractor would supply materials, labour and equipment and the Department of National Defence—Navy would carry out the under-water work. Work was commenced by Navy personnel in November 1965 but was not completed until May 1966. The final cost of phase two amounted to $348,300 exclusive of the cost of the Navy's work.

In June 1966 the Treasury Board raised the cost limitation by $30,000 to $520,000 without having been made aware of the Navy's contribution to the project.

Phases one, three and four were completed at a final cost of $163,200 bringing the total recorded cost of the project to $511,500. Inclusion of the cost of the Navy's work estimated at $50,000, brings the cost of the completed project to $561,500 or $41,500 in excess of the amount approved by the Treasury Board.

When the value of labour and material supplied by the Department together with the related overhead is not included in the cost of a project, such cost can be seriously misleading. Because of this the Department has had a standing instruction since 196[illegible] that estimated project costs must include the cost of material, whether purchased directly or supplied from stocks, and all labour whether employed directly for the job or provided by departmental service or civilian staffs, together with appropriate charges for overhead.

The instruction appears to have been disregarded in this instance.

105. *Naval architects' fees.* In March 1965 the Department of National Defence requested the Department of Defence Production to obtain the services of naval architects to assist in preparing structural drawings for a new type of ship and to provide other related services.

When negotiating with the architects the Department of Defence Production suggested that in view of uncertainties as to the extent of the work, particularly with regard to the time required for consultations, it might be more appropriate for the architects to quote on the basis of cost plus a fixed fee rather than a firm price. The architects quoted on both bases and a firm price of $8,010 was agreed to in May 1965.

In November 1965 shortly after completion of the work, the architects claimed $26,490 which was $18,480 more than the agreed firm price, stating that until they received the lines plans and general arrangement drawings of the ship four days after signing the contract, they had not appreciated the amount of work involved. The reason offered by the architects for not renegotiating the contract in May was that they were under pressure from the Department of National Defence to proceed with the work.

In March 1966 the architects were paid an additional $6,255 for work required to complete the contract, which had not been anticipated by either the Crown or the architects.

In March 1967, after further representations, the Treasury Board approved payment of an additional $4,485 representing 50% of the architects' unrecovered costs as established by audit, bringing the total cost to the Crown to $18,750.

106. *Purchase of buses which proved to be unsatisfactory.* In June 1962 tenders were nvited for the purchase of 34 intercity type 40-passenger buses for the Department of National Defence—Army and a contract was awarded to the lowest tenderer who supplied a bus of separate chassis and body design at a firm price of $636,612. The price was ater increased by $12,580, the cost of modifying the luggage space to meet the stowage equirements which had not been satisfactorily defined in the specifications. This brought he amended contract price of $649,192 to within $36,000, or $1,059 per bus, of the econd lowest tenderer who offered a bus of integral body and chassis design and had reviously supplied most of the Department's bus requirements.

At the time the contract was placed Army specifications did not require integral frame onstruction, although this was a requirement of the RCAF specifications for an intercity us and is the body design favoured by most commercial users. There are now uniform pecifications throughout the Defence Forces requiring integral design for an intercity ype bus.

In October 1964, a departmental report on the buses acquired listed 20 different types f failures or defects. Major failures occurred in engines and clutch assemblies. Among he built-in defects common to all vehicles was that spark plugs on the right side of the ngine could only be reached by dismantling the side of the bus, and then cutting a rectangular port in the compartment wall. We were unable to determine why some of the efects were not discovered prior to acceptance of the buses.

A settlement under the contract warranty covering the cost of repairs resulting from ulty manufacture, material or workmanship was made in January 1967 in the amount $40,669. In addition, the manufacturer agreed to undertake a test program to deterine the causes of the defects and failures. As a result of the test program the manacturer decided to carry out two re-work programs, one completed in October 1965

and the other in November 1966, during which modifications were made, the parts and labour being paid for by the company.

During the interval between the delivery of the 34 buses and the first re-work program, 41 major engine failures and 78 clutch failures occurred; and between the first and second re-work program 31 more engines failed, while no significant reduction in the number of clutch failures was observed.

Notwithstanding the efforts of the manufacturer and the Department to rectify the various defects and failures, the cost of maintenance and repair of the buses continued to be abnormally high.

At March 31, 1967, after three years of service, maintenance and repair costs (excluding those effected at "unit" level) amounted to $235,595 or 15.7 cents per mile, compared with $146,288 or 6.6 cents per mile applicable to another fleet of 40-passenger buses of the type offered by the second lowest tenderer.

We were unable to determine the reasons for the continued unsatisfactory performance of these vehicles, but it may be significant that they were basically a modified school bus which is not considered to have the inherent strength to perform as an intercity bus at a satisfactory cost level for the life span required.

107. *Excessive payments to municipal school board.* In our 1965 and 1966 Reports (paragraph 93 in 1966) we referred to excessive payments made by the Department of National Defence to a municipal school board under an agreement entered into in June 1957 to provide schooling for dependent children of servicemen residing in married quarters at an RCAF station. The total overpayments over the years to June 1965 were estimated at $191,000.

Having failed to induce the school board to refund the amount overpaid, the Department had taken steps to avoid further overpayments by paying only 50% of the schoo board's monthly billings. In February 1966 the school board had sought additiona capital assistance from the Department with regard to a further expansion of the school but a decision on this was being withheld pending receipt from the school board of : satisfactory proposal for settlement of the outstanding debt.

The amount of the overpayment is still in dispute but payments of monthl billings submitted by the school board since December 1966 amounting to $16,000 hav been withheld. We understand that an agreement has been reached whereby one-tent of the total amount overpaid will be withheld from payments to the school board at th beginning of each school year until full recovery has been effected.

In the meantime the Treasury Board on September 6, 1967 approved paymer of $100,000 during 1967-68 as an additional capital assistance grant for expansion of th school.

108. *Cost of terminating leases for communication facilities.* In both our 1965 ar 1966 Reports (paragraph 88 in 1966) we have drawn attention to Canada's share of tl cost of terminating leases for communication facilities under the terms of cost-sharii agreements with the United States.

The closing of a number of radar stations and control centres forming part of the Continental Air Defence Integration North communication system in 1965-66 cost Canada $1,170,000 in that year. During 1966-67 contracts covering rental of certain landlines and on-base telecommunication and ancillary equipment were also terminated because of a continuing reconfiguration of this particular system. The termination charges paid during the year approximated $1,860,000 of which Canada's share was about $900,000, thereby bringing the total cost to Canada to $2,070,000.

109. *Cost of disposal of aviation gasoline reserve.* In 1963 the Department of Defence Production entered into a contract for the supply of aviation gasoline to an air base near St. John's, Nfld., which also provided for the maintenance of a reserve of 620,000 gallons of gasoline. The contractor agreed to maintain the reserve as well as the Crown-owned storage facilities without charge on the understanding that he could supply other customers from the same facilities and that the Crown would purchase the reserve if the contract were terminated or subsequently awarded to another contractor.

Although the air base was closed in April 1964 and the property turned over to the Department of Transport, it continued to be designated as an emergency air field and the gasoline reserve was maintained. No consideration seems to have been given to possible alternative arrangements for an emergency fuel supply until January 1965 when the contractor, anticipating no sales in the foreseeable future, requested that the Crown buy the reserve for about $175,000 or pay a $20,000 annual fee to cover his evaporation losses, cost of working capital invested in inventory, etc., and assume the $25,000 annual cost of maintaining the quality of the gasoline.

This fee was paid for a period of 14 months to May 1966 when it was decided to dispose of the reserve because the cost of maintaining it, amounting to approximately $45,000 annually, was considered to outweigh the advantage of having the gasoline immediately available at all times.

As the Crown could not use the gasoline unless it were transported to another air base, it was decided to pay the contractor $54,000 to return the bulk of it to his own refinery and relieve the Crown of its obligation to purchase it. An additional $16,000 was paid to the contractor to cover the purchase price of 57,090 gallons of gasoline that could not be readily removed from the storage tanks. This was declared surplus and sold to another oil company for $1,500.

Departmental records indicate that 400,000 gallons of this type of gasoline had been used at this air base in 1964-65 so it would appear that most of the gasoline could have been used in normal operations and expenditure of much of the $91,500 could have been avoided had the decision to dispose of the reserve been made at the same time as the decision to discontinue use of the air base.

110. *Costs incurred on a project indefinitely suspended.* In August 1963 a contract in the amount of $24,630 was awarded for the construction of a sewage stabilization pond at Camp McGivney, N.B., the work to be completed by October 1963.

In October 1963 the contractor advised that he had experienced difficulties with the excavation, having to remove substantially greater quantities of material than indicated in information supplied by the Crown. When it became apparent that an additional $9,240 would be required to complete the project and that the future of the Camp was in doubt, the contract was cancelled and the contractor was paid a total of $24,743 including $1,619 in cancellation charges. Final settlement was delayed until June 1966, the contractor having gone bankrupt in the interval.

We understand that it is unlikely the project will be completed.

111. *Cost of delay due to change in specifications subsequently withdrawn.* Defence Construction (1951) Limited awarded a firm price contract in October 1958 for the construction of an Army stores depot at Valcartier, Que. The contract price, as amended, was $407,000 with completion scheduled for the end of October 1959.

Because of severe winter conditions, the contractor was approximately two months behind schedule by April 1959 at which time an addendum to the contract specifications was issued requiring the contractor to provide prices for five alternative ways of making a proposed change to the heating system.

Some four months elapsed before the contractor submitted quotations due in part to the number of alternatives requested. The lowest quotation of $40,656 was considerably in excess of the original Department of National Defence estimate of $16,000, and after reviewing the cost and considering the potential value of the proposed change, over a period of about three and a half months, the Department of National Defence cancelled the addendum and the Company instructed the contractor to proceed with the original plan. During this period the contractor had to delay certain parts of the work because of the nature of the proposed change, a delay which he stated forced him to work through a second winter, to completion in June 1960.

In April 1960 the contractor claimed $40,000 as compensation for the additiona costs he attributed to this delay, increasing his claim to $52,000 in August 1964.

In May 1966 the contractor was paid $18,300 which, together with $3,200 paid in June 1961, brought the settlement to $21,500, the Crown's estimate of the cost of the "addendum" delay. This payment brought the cost of the building to $428,500.

112. *Additional cost resulting from failure to exercise option to renew a lease.* building was leased in Montreal by the Department of National Defence for a period c four years and ten months from July 1, 1960 to April 30, 1965, at an annual rental c $34,500. By an agreement entered into with the lessor on November 27, 1964 the leas was renewed for a further term of two years from May 1, 1965 to April 30, 1967. clause of the agreement gave the Minister of National Defence the option of renew for successive terms of two years at the same basic rental, provided the Department noti fied the lessor in writing of its intention to exercise the option on or before October 3 preceding expiry of the current lease.

Renewal of the lease was delayed by deliberations in connection with the reorganiz tion of military units in the Montreal area, the notice to renew being given one day la

on November 1, 1966. As the lessor was not prepared to renew the lease on the same terms and conditions, the lease was renewed for a further term of five years at an annual rental of $37,950—an increase of $3,450.

The additional cost to the Crown through failure of the Department to notify the lessor of its intention to exercise the option to renew the lease will amount to $17,250.

113. *Additional cost of using unsuitable material.* In October 1964 a firm price contract was awarded for the manufacture of coveralls for the Department of National Defence at a cost of $76,783 as amended. The fabrics used by the contractor were supplied as 'free issue' by the Crown from stocks it acquired from two suppliers.

The fabric acquired from one of these suppliers proved to be difficult to sew under normal conditions notwithstanding the fact that it met all the specifications in force at the time it was acquired. In April 1965 the clothing manufacturer advised the Department that he had incurred increased labour costs of $7,300 because of difficulties in working with this fabric.

Tests conducted by the Crown, the supplier and an independent laboratory confirmed that the fabric was unsuitable for its intended use. Accordingly the Crown paid the clothing manufacturer $6,171 in respect of his additional costs, bringing the total cost of this contract to $82,954. In addition, the Crown paid the fabric supplier $550, half the cost of refinishing the unused 23,100 yards of fabric to overcome the problem. Cloth specifications now include a clause to the effect that the fabric shall be capable of being sewn without difficulty under normal conditions of manufacture.

114. *Cost of re-surfacing bridge in late autumn.* In October and November 1965, the deck slab on that part of the Jacques Cartier Bridge north of St. Helen's Island, Montreal, was re-surfaced at a cost of $84,000. Early in 1966 the road surface began to deteriorate and the National Harbours Board's consulting engineer concluded that the asphalt mix had been applied too late in the autumn when the temperature fell below an acceptable level. The bridge, however, was not repaired until mid-November 1966. The cost of the repairs was $92,000.

115. *Unemployment Assistance.* The Unemployment Assistance Act, 1956, c.26, provides for payment by Canada to the provincial and territorial governments of 50% of the costs of providing assistance to persons unemployed and in need. Our Reports in 1966 (paragraph 97) and prior years have made reference to difficulties in the administration of the Act arising in part from inadequate definitions of shareable costs, ambiguities in the text of the Act and the relationship between this program and categorical programs such as old age assistance and blind and disabled persons allowances. The Public Accounts Committee in its Fourth Report 1963 concurred in our observations (see Appendix 1, item 4).

In 1966 Parliament enacted the Canada Assistance Plan, 1966-67, c.45, which permits the Federal Government to enter into agreements with the provinces to make contributions to the cost of providing assistance and welfare services, pursuant to provincial

law, to all persons in need. It is anticipated that these agreements will in time replace existing agreements with the provinces with respect to sharing costs of unemployment assistance and the categorical programs. The Canada Assistance Plan also provides for federal contributions to the cost to the provinces of welfare services and mothers' allowance programs both of which had previously been excluded from federal aid.

The Plan should provide the overall co-ordination of assistance programs that has been lacking previously. However, while the regulations under the Plan have been formulated and agreements have been signed with the provinces, the Plan did not come into operation until near the end of the fiscal year and we have not yet been able to assess the adequacy of this new comprehensive approach to social assistance in overcoming the administrative weaknesses noted in previous Reports.

116. *Provincial payments to federal hospitals under the Hospital Insurance and Diagnostic Services Act.* Reference has been made in our Reports for the past three years to our inability to determine whether the terms of the agreements with the various provinces under the Hospital Insurance and Diagnostic Services Act, 1957, c.28, relating to payments to federal hospitals, were being observed in all cases. This stemmed in part from the fact that: accounting in many federal hospitals did not conform to the Canadian Hospital Accounting Manual which provides a basic accounting system for hospitals; accounting and medical records in some Indian hospitals were inadequate for the preparation of the financial returns required by the agreements with the provinces; and in some cases rates could not be determined by reference to comparable non-federal hospitals because of the specialized nature of many federal institutions.

Last year we stated that progress had been made in introducing into federal hospitals an accounting system based on the Canadian Hospital Accounting Manual. Ten of the sixteen hospitals of the Department of National Health and Welfare were using the Manual and the Department of Veterans Affairs had introduced it at one location and proposed to extend its use to its other ten hospitals. Both Departments anticipate that an accounting system based on the Manual will be in operation in all of their hospitals in 1968-69 (see Appendix 1, item 55).

117. *Questionable use of Health Grant funds.* The appropriations for the Department of National Health and Welfare provide for General Health Grants to the provinces and territories for various purposes, including General Public Health Grants "to assist in extending and improving health services". A grant in the amount of $58,587 was provided to the Province of Quebec to permit the establishment of an audit and financial services section within the Health Grants Services of the provincial Department of Health.

Since auditing and financial services are generally considered to be normal administrative expenses, it is doubtful whether such services should be supported under a Health Grant program whose purpose is "to assist in extending and improving health services".

118. *Departmental practices which lack statutory sanction.* In last year's Report (paragraph 105) reference was made to four practices of the Customs and Excise Division of the Department of National Revenue which lacked legislative sanction. These practices relate to:

(*a*) refunds of customs duties on an estimated basis;

(*b*) sales of goods unclaimed at Customs;

(*c*) determination of "sale price" for sales tax purposes; and

(*d*) refunds of duty paid on goods diverted to use other than that for which they were imported.

The Public Accounts Committee in its Eighth Report 1964-65 recommended that the practices referred to in (*b*) and (*c*) above should receive statutory sanction and in its Fifth Report 1966-67 the Committee supported the Audit Office view that the item referred to in (*d*) above should receive parliamentary sanction if the practice is to continue (see Appendix 1, item 25).

There were no amendments to the Customs Act, R.S., c. 58, during the year and although there were two Acts (1966-67, cc. 40, 79) amending the Excise Tax Act, R.S., c.100, no change was made with respect to the "determination of 'sale price' for sales tax purposes". Nevertheless, the practices were carried on throughout the year.

In its Fifth Report 1966-67 the Public Accounts Committee expressed the opinion that

> a government department should not initiate or take any action that is not authorized by Parliament even though it contemplates that Parliament may eventually take action to provide that authority. It [the Committee] considers that the actions of government departments must be limited at all times to the legislative authority existing at the time the action is taken.

119. *Concessions made to motor vehicle manufacturers.* In our 1966 Report (paragraph 106) we outlined the terms of three programs under which concessions were made to motor vehicle manufacturers and expressed the opinion that procedures followed by the Customs and Excise Division of the Department of National Revenue in administering the concessions were not adequate to protect the revenue.

The situation remains the same and

(a) there are still no records available giving the amount of customs duty involved or even the total value of the imports for which the manufacturer must account,

(b) the Department does not always receive adequate information on which to assess the importers' progress in meeting the conditions of the programs,

(c) delay in verifying the manufacturers' records continues because of lack of sufficient pressure by the Department on the manufacturers to submit the required annual statements by the due date, and

(d) departmental policy is now to record amounts due by manufacturers who fail to qualify for the tax exemptions they have had, only when the amount is finally determined rather than establishing an estimated amount as soon as it is known that an amount is receivable. The total of the accounts receivable at March 31, 1967 has therefore been established on a basis different from that used at March 31, 1966.

The situation at March 31, 1967 with respect to the three programs referred to in our 1966 Report was as follows:

(1) The duties owing by two manufacturers under the British Commonwealth Content Regulations have been established at $2,394,000 of which $2,203,000 was remitted as reported last year and $191,000 has been paid. This program is now of interest to the major automobile manufacturers only in the event that they fail to meet the conditions of the Motor Vehicles Tariff Order 1965.

(2) We reported last year that under Order in Council P.C. 1963-1/1544 of October 22, 1963 four manufacturers were indebted to the Crown and one, who owed an amount of $470,000, had made payment in full by November 23, 1966. During the year the indebtedness of the other three manufacturers was established at $876,000, all of which has been paid.

However, the Department of Justice has expressed the opinion which is referred to in more detail in (3) below that 3,275 foreign-built automobiles, which had been brought into Canada duty free prior to January 17, 1965 in the name of a manufacturer who had ceased production early in 1966, had not in fact been imported by that manufacturer. The duty of $617,000 applicable to these automobiles was therefore owing at March 31, 1967 by the Canadian affiliate of the foreign manufacturer.

As this program had been superseded in January 1965 by a new program under Motor Vehicles Tariff Order 1965 there was no other transaction under it during the year.

(3) At March 31, 1966 an estimated $7.1 million was owing to the Crown under the Motor Vehicles Tariff Order 1965 because of failure of three manufacturers to meet the required conditions. Included in the amount was an estimated $2.4 million owing by the manufacturer who had ceased production early in 1966 and who was identified in the House in October 1966 as the Studebaker Company of Canada Limited. It will be recalled that this manufacturer had failed to meet the conditions of the Order because of his importation and sale in Canada of foreign-built automobiles on behalf of another automobile company, also identified in the House in October 1966 as Volkswagen Canada Ltd.

Our review of the departmental files dealing with this transaction disclosed a copy of a letter addressed in October 1966 "To All Our Dealers" by the Managing Director of Volkswagen Canada Ltd. This circular letter outlines what took place:

> In view of the extensive news coverage of the arrangement by which Studebaker imported Volkswagens into Canada during the first half of 1965, I thought you should have the complete and accurate story.
>
> Under existing Federal Government regulations, Studebaker—by concentrating all of their manufacturing operations in Canada—had built up a considerable export credit by the end of 1964. Unlike other domestic manufacturers who had been manufacturing on both sides of the U.S.-Canada border, and who could use export credits generated by their exports from Canada by importing cars and original component parts from the U.S., Studebaker was no longer manufacturing in the United States, and therefore could not utilize their export credits in that manner. Therefore, Studebaker approached us during November 1964, seeking our co-operation in helping them to use up their export credits. Studebaker suggested that they import Volkswagens to obtain the benefits to which they were entitled from their export credits. Studebaker's proposal was that they would import Volkswagens, duty free, from Germany and sell them to us at a price that would include the duty which we would ordinarily have to pay if we imported them ourselves. Studebaker proposed to pay us a small fee to cover our expenses.
>
> At first we declined this proposal because we felt that the Canadian regulations—particularly the export credit regulations—were not meant to cover such cases as this. However Studebaker checked with the Federal Government in Ottawa and obtained written confirmation that such an arrangement was completely legal and within the regulations. On the basis that Ottawa was not only sanctioning Studebaker's proposal but must obviously be interested in

having us co-operate with Studebaker, a Canadian manufacturer who had contributed to the Canadian economy by employing some 800 people and creating exports for Canada, we decided to co-operate. Consequently, between December of 1964 and July 1965, about 10,000 Volkswagens were imported into Canada under this arrangement with the full knowledge and approval of customs authorities, and within the law. Instead of paying duty to National Revenue, we were paying an equivalent amount to the importer of record, i.e. Studebaker.

In view of this, you may have wondered why we did not make our co-operation dependent on receiving a share of Studebaker's duty savings. As is now apparent, our acceptance of a small fee rather than a share of the duty saved was a wise decision. News coverage of this situation, on the whole, reveals that our participation was primarily in the interests of good citizenship.

When the Studebaker Company of Canada Limited failed to meet the conditions of the Order, the Department did not demand payment of the duties owing but instead sought from the Department of Justice an opinion as to the legal position with respect to the importation of the Volkswagen automobiles which it had previously approved. In November 1966 the Department of Justice expressed the opinion that Studebaker was not in fact the importer of such automobiles. This meant that Studebaker was not then the seller of these vehicles in Canada and removal of them from its net sales ratio figures resulted in Studebaker meeting the requirements of the program so its indebtedness to the Crown of $2.4 million was cancelled by the Department.

This also meant that 10,918 Volkswagen automobiles, including the 3,275 referred to in (2) above, had been improperly permitted to enter Canada without payment of the duty specified in the Customs Tariff. However, no demand was made on Volkswagen Canada Ltd. for payment of the duty and of the sales tax attributable to the duty, amounting to $2,188,000, and they were remitted by the Governor in Council under section 22 of the Financial Administration Act on August 23, 1967 (P.C. 1967-23/1621).

The amount of $4.7 million referred to last year as owing by two other manufacturers comprised $2,016,000 owing for the period January to July 1965 and $2,678,000 owing for the period August 1965 to March 31, 1966, no portion of which has yet been settled.

In our review we noted that one automobile manufacturer had anticipated that he might fail to meet the requirements of the Order in the period January 1965 to July 1965 because domestic sales were running too high in relation to production. In order to reduce sales during the months of June and July, agreements were entered into with dealers whereby deliveries during part of this period would be on consignment, with payment to be made in full on August 2, 1965, one working day after July 31, the close of the production year. This arrangement, which was inconsistent with the practice followed at the beginning of the year, served to keep the recorded domestic sales within the desired ratio and the manufacturer saved several millions of dollars in customs duties.

On questioning the Department about this inconsistency we were informed that the facts had been submitted to the Department of Justice for an opinion but that Department stated that they were unable to advise that the vehicles delivered by the Company to its dealers during the month of July 1965 were sold during that month within the meaning of the Motor Vehicles Tariff Order 1965. The Department of National Revenue state that they then discussed this decision with the Departments of Industry, Finance and Trade and Commerce and it was agreed that as the transactions in question could not be dealt with as sales, there was no alternative but to exclude them from the portion of the sales ratio relating to the net sales value of vehicles sold for consumption in Canada. On this basis the Company met the ratio requirements and was so advised.

Such an inconsistency, of course, has the reverse effect in the succeeding period (August 1965 to July 1966), with respect to which this Company also appears to be

having difficulty in establishing that it had met the conditions of the Order. From reports filed by the Company, it would appear that the amount of duties and taxes which will have to be paid should it be determined that the Company has failed to meet the conditions is in excess of $30 million.

If the policy of assistance to the automobile industry is to be continued in the present form, it is essential that the administration be tightened up, that an adequate system of accounts be installed and that information flow into the Department promptly and continuously. The Department should obtain and maintain the initiative in assessing and collecting the taxes due the Crown. If necessary, penalties should be imposed to ensure that the industry provides promptly the information required for settlement of the accounts. If these steps are not taken the importers may benefit from concessions beyond those to which they are entitled and, as a result, losses of revenue to the Crown will occur. It is a fact that since the inception of the Motor Vehicles Tariff Order 1965 on January 18, 1965 not one cent of duty has yet been collected from any company for failure to meet the conditions of the Order.

In last year's Report we stated:

> In the past, the concept that duties and taxes be paid at the time of importation, with penalties provided if payment of these duties and taxes was deferred, has been inherent in the Customs Act and Customs Tariff. This concept has been changed under the terms of the several motor vehicle tariff concessions with the result that from time to time substantial amounts, as referred to above, are owing by certain importers. To this extent the Crown is participating in the financing of automobile production.

The term "manufacturer" is defined in the agreement dated January 16, 1965 between Canada and the United States of America and includes only those motor vehicle manufacturers who have met certain specified conditions, which are those set out by Canada in the Motor Vehicles Tariff Order 1965.

However, it is not possible to determine that the motor vehicle manufacturers have met the conditions specified until their performance is known and Canada is not, in our opinion, obligated to permit duty-free importation by any manufacturer until he has met these conditions. Consequently, in order that the procedures applied will ensure an effective check on the revenues of the Crown, we believe that all duties and taxes should be collected at the time of importation and that benefits or incentives provided should be made available to the manufacturer only when evidence is produced that the required conditions have been met.

120. *Failure of provincially-owned instrumentalities to pay sales tax.* In our 1966 Report (paragraph 108) attention was drawn to the refusal by two provincially-owned instrumentalities to continue to pay directly to the Department of National Revenue sales tax on natural gas used in internal combustion engines for the production of electricity.

It was stated that the amount owing by the British Columbia Hydro and Power Authority had been estimated at $112,000 but this figure has since proved to be excessive. The Authority contended that it was not the manufacturer of the gas and the Depart-

ment then made an assessment against the pipeline company which had processed 76.44% of the gas supplied to the Authority by that company. Although this company also contended that it was not the manufacturer a compromise was worked out whereby it paid $17,250 in full settlement.

This compromise included acceptance by the Department of an amount less than the actual sales price for tax computation purposes—a practice not provided for by the Excise Tax Act and on which the Public Accounts Committee has made a recommendation (see Appendix 1, item 25). We have been unable to satisfy ourselves that tax has been paid on the remaining 23.56% of the natural gas used by the Authority for taxable purposes.

The files pertaining to the Saskatchewan Power Corporation case were not available for our examination, having been referred to the Department of Justice. The assessments of $262,194 which were unpaid at June 30, 1966 are still unpaid, no assessment has yet been made for gas used for the production of electricity during the period December 1955 to December 1957, and as far as we are aware there have been no other developments.

Natural gas used in internal combustion engines was exempted from sales tax effective March 30, 1966.

121. *Remissions granted by the Governor in Council under section 22 of the Financial Administration Act.* Section 22(1) of the Financial Administration Act provides that:

> The Governor in Council, on the recommendation of the Treasury Board, whenever he considers it in the public interest, may remit any tax, fee or penalty.

and subsection (8) requires that:

> A statement of each remission of one thousand dollars or more granted under this section shall be reported to the House of Commons in the Public Accounts.

In accordance with this requirement, listings of remissions of one thousand dollars or more are included in Volume II of the Public Accounts. Again this year the majority of these remissions pertain to customs duties, excise duties and excise taxes administered by the Customs and Excise Division of the Department of National Revenue. The totals of the remissions with respect to this Division for which amounts appear in the Public Accounts, in each of the past four years, are as follows:

1963-64	$ 12,518,000
1964-65	40,520,000
1965-66	34,826,000
1966-67	30,134,000

In addition to the remissions for which amounts are shown, a number are granted where amounts involved are not accumulated or cannot readily be determined. In such cases a narrative description of the remission is included in the Public Accounts.

The largest group of remissions, in terms of numbers, involves goods or equipment imported into Canada on a temporary basis. These remissions amounted to $16 million in 1966-67. In our 1966 Report (paragraph 107) we stated that, since the policy of the Governor in Council to remit in such cases is being followed consistently and has the

same effect as if statutory provision were made for importation on a duty-free basis or on the basis of a pro-rated amount being assessed for each month the imported article remains in Canada, consideration should be given to suitable amendments to the governing legislation so that such importations may be documented more expeditiously, thereby eliminating routine referrals to the Governor in Council.

Forty-two remissions granted during the year, totalling $199,326, have been included in the Public Accounts under the following descriptive narrative:

> Remissions of taxes imposed under the Excise Tax Act in cases where, on the basis of expert opinion, it is considered that litigation would not be expedient.

The majority of these remissions involved relief to lumber manufacturers who had misinterpreted the regulations issued by the Department in connection with the taxable sales price of lumber.

Last year we pointed out that there were several continuing remissions for which a narrative description had not been included in the Public Accounts because no person benefited therefrom during the year. We expressed the opinion that such remissions should continue to be reported as long as they remain in effect regardless of whether benefit was derived from them in any year.

The 1967 Public Accounts include a narrative description of most of the remissions in this category. However, in September 1967 the Department received from the Department of Justice an opinion to the effect that a remission having continuing effect need be reported only in the year in which the Order in Council is passed, regardless of the benefits derived from it in any subsequent year, and that no benefit under a remission which has been reported in narrative form need be reported even if it is known to exceed $1,000. If in future years the Department relies on this opinion to omit statements of these remissions from the Public Accounts of years subsequent to that in which the remission was granted, then many of the statements in the 1967 Public Accounts will not be repeated in future years even though benefits are obtained under them in those years.

In our opinion, remissions of a continuing nature should be revoked once they have served their purpose and should not be left available for the benefit of future individual cases which might happen to qualify under them. Furthermore, in the interest of full disclosure to Parliament, unrevoked remissions of a continuing nature should continue to be reported in the Public Accounts annually.

122. *Misappropriation of public funds at customs ports.* As the result of a departmental investigation into activities at one port (see paragraph 110 of our 1966 Report), a general investigation was launched by the Department of National Revenue at locations where special services are provided to shipping companies. The investigation, which was based primarily on transactions occurring in 1965-66 and 1966-67, revealed that fifteen officers collected and retained special service charges totalling $2,005, seven of whom also retained transportation charges collected totalling $700, and ten other officers retained $684 in transportation collections.

Steps were taken by the Department to recover the amounts established as having been improperly retained and requests for retirement or resignation have been accepted covering sixteen of the officers involved.

Although there is evidence that misappropriations at certain ports had been taking place over many years, the investigation was not extended because of lack of records and the costs that would be involved.

Had the amounts misappropriated in these earlier periods been established, the Department would have had to attempt to recover the amounts and, if unsuccessful, would have had to seek Executive authority for their transfer as charges against the Public Officers Guarantee Account. Similarly, when a department wishes to write off debts due to the Crown in excess of one hundred dollars, Executive approval must be sought. It therefore follows that whenever it is not practical to establish the full amount of a misappropriation, either because the records have been destroyed or for any other reason, a department should be required to obtain Executive approval for limiting or discontinuing the investigation. There does not appear to be any such requirement at the present time.

123. *Calculation of duties of excise on spirits distilled or brought into a distillery.* Section 137 (1) of the Excise Act, R.S., c.99, defines five separate methods whereby the duty on spirits is to be charged and computed and directs that the "method of computation which yields the greatest amount of revenue, shall, in all cases, be the one upon which the distiller shall pay the duty".

Only one of these methods provides for abatements of the duty on the spirits for shrinkage by evaporation while maturing. It is this method which is in use by the Department of National Revenue notwithstanding the fact that because of the abatements the method produces less revenue than the alternative methods. The explanation given by the Department is that if this particular alternative was not chosen, the abatement provisions of the Act would be totally ineffective and it did not consider that this was intended by Parliament. However, the choice made by the Department has rendered completely ineffective the requirement that the method yielding the greatest amount of revenue is to be used.

During the year abatements amounted to $57 million which is the equivalent of approximately one-third of the total excise duties actually collected on distilled spirits. Under the present wording of the legislation, this amount must be regarded as a shortfall of revenue. If it is intended that such abatements be continued, then the Act should be suitably amended.

124. *Customs and Excise laboratory.* The primary function of the Customs and Excise laboratory is to identify and classify by chemical or physical means various materials described in the Customs Tariff, the Excise Act and other Acts of Parliament administered by the Department of National Revenue and to advise departmental

officials on the drafting and enforcement of regulations where chemical or related scientific information is involved. A number of the cases referred to the laboratory involve appeals against assessments of duties.

In our 1965 Report we suggested that consideration be given to the institution of appeal fees and to the adoption of a tariff to be charged for professional services rendered by the laboratory for the benefit of importers and exporters.

In its Fifth Report 1966-67 the Public Accounts Committee recommended that the Customs and Excise Division of the Department of National Revenue review its laboratory operations in line with the Treasury Board's objective of promoting the earning of non-tax revenue and that it institute a tariff of fees for services rendered for the benefit of importers and/or exporters designed to cover the cost of providing these services. The Committee also recommended that if the Department after reviewing its laboratory activities is still of the opinion that establishment of a tariff is not warranted, it lay the facts before the Treasury Board seeking the Board's approval for the continuation of the laboratory as a free service.

The Department has since sought and obtained authorization from the Treasury Board to continue its present policy of absorbing all costs involved with the analysis of samples referred to the Customs and Excise laboratory.

125. *Income tax owing by non-residents.* Treasury Board Vote 25g of Appropriation Act No. 2, 1967, *1966-67, c. 85,* authorized the Treasury Board to delete from the accounts certain debts due to Her Majesty aggregating $15.1 million. Of this amount $13.6 million represented uncollectable income tax, of which $7 million was owing by 403 taxpayers from whom collection could not be effected because they are no longer resident in Canada. This is a continuing problem which is aggravated by the fact that a person emigrating from Canada is not required to obtain a tax clearance before departure; by the lack of any agreement with other countries for the collection of tax on a reciprocal basis; and by the apparent inability of any government to make use of the courts of another country for tax collection purposes.

The problem is not limited to persons who are non-resident, as it exists to some degree in the case of residents of Canada living near the United States border who are employed in the United States. Such persons are taxable in Canada on all their income, whether earned in the United States or Canada, but collection becomes impossible if the taxpayer chooses to arrange his affairs in such a way that any assets which might be seized are kept in the United States.

Consideration should be given to the development of procedures designed to minimize the evasion of payment of income tax to the Canadian Government, by people leaving Canada or removing assets from Canada.

126. *Income tax concessions to members of the Armed Forces.* Under the provisions of section 66(1) of the Income Tax Act, R.S., c.148, the Governor in Council may, by regulation made on the recommendation of the Minister of Finance and the Minister of

National Revenue, provide for the determination of the amount of tax to be paid by a member of the Canadian Forces on the income from his employment as a member.

The regulations made pursuant to this section of the Act in effect grant concessions to members of the Armed Forces and no income tax was levied on a minimum of $9 million of taxable income in 1966 as is shown by the following:

1. For the purpose of the regulations, where a serviceman and his wife lived together during a year he is deemed to have supported her during the year and, accordingly, is entitled to a personal exemption of $1,000 on behalf of his wife regardless of the amount of her income.

   Thus the serviceman, unlike a civilian taxpayer, receives the benefit of married exemption even though his wife's income exceeds $1,250, and where his wife has an income between $250 and $1,250 in a taxation year he is not required to reduce his married exemption by the amount by which his wife's income exceeds $250.

   There are approximately 72,000 married personnel. If the wives of only 1,000 of these servicemen have an annual income of $1,250 or more, then the minimum annual loss to the Crown is equivalent to the income tax on $1 million of taxable income.

2. The regulations specifically direct that no amount of tax is to be paid by a member on amounts of pay and allowances payable to him in a taxation month in consequence of an upward adjustment in the month of his pay and allowance entitlements for a month.

   Thus, where a member receives an increase in pay and allowance in a month, the amount of the increase for that month is not taxed. A general increase in pay was granted to the Armed Forces as of October 1, 1966 at an estimated cost of $8 million per month. The loss to the Crown is the tax on this $8 million of taxable income for the month of October 1966.

127. *Children's allowance paid to members of the Armed Forces serving abroad.* In our 1966 Report (paragraph 111) we drew attention to the fact that allowances provided to members of the Armed Forces posted to a unit of the Canadian Infantry Brigade or the Air Division in Europe include a children's allowance to compensate for the loss of family allowances which would have been received had the children remained in Canada.

Because family allowances are not payable with respect to children living abroad, such taxpayers are permitted to claim the maximum exemption of $550 for each dependent child. Thus members of the Armed Forces serving in Europe are receiving both the children's allowance in place of family allowances and also the income tax exemption of $550 in place of the $300 exemption which may be claimed with respect to children who are qualified for family allowances.

The annual loss to the Crown because of this double benefit is equivalent to the income tax on an estimated $3.3 million of taxable income.

When we drew this anomaly to the attention of the Taxation Division of the Department of National Revenue we were advised that appropriate amendments to the Income Tax Act, R.S., c.148, and Income Tax Regulations would be proposed to provide that the deduction permitted for a wholly dependent child not qualified for family allowances

will be limited to $300 when children's allowance has been paid to a member of the Armed Forces on behalf of a dependent child.

The necessary amendments have not yet been made.

128. *Insufficient penalty for late payment of income tax.* Section 51 of the Income Tax Act, R.S., c.148, provides that

> the taxpayer shall, within thirty days from the day of mailing of the notice of assessment, pay to the Receiver General of Canada any part of the assessed tax, interest and penalties then remaining unpaid, whether or not an objection to or appeal from the assessment is outstanding.

In paragraph 198 of this Report concerning the accounts receivable of the Department of National Revenue, it may be seen that the accounts receivable by the Taxation Division of that Department amounted to $288 million at March 31, 1967. Of this amount, $148 million was owing on assessments under appeal. This amount was owing by 1,384 individual taxpayers, from 333 of whom the Department had taken security or partial security with respect to $91 million of taxes owing. The greatest number of appeals outstanding concerned 1966 assessments, although there were 191 taxpayers owing tax for 1963 and prior years in connection with which appeals had been filed.

Although interest at the rate of 6% per annum is payable on taxes paid after the due date, penalties for late payment could be of material assistance to the Taxation Division of the Department in collecting its outstanding accounts.

129. *Second class mail.* For the year ended March 31, 1967 the Post Office Department incurred a net operating deficit of $47.8 million compared with a recorded net operating deficit of $34.5 million in the previous year. In arriving at the operating results for 1966-67 the Department for the first time took credit for the interest value of balances held in the money order account and the Post Office Savings Bank less interest allowed on Savings Bank accounts. Had these revenues been taken into consideration in 1965-66 the comparable deficit would have been $31.2 million and thus the increase in the 1966-67 deficit over the previous year is actually $16.6 million. (See paragraph 263 of this Report.)

Of the deficit of $47.8 million in 1966-67, $33.8 million is attributable to the loss on the handling of mailings by publishers of newspapers and other periodicals (second class mail), an increase of $5.7 million over the loss on second class mail in the previous year.

The following figures show the estimated loss in handling second class mail in those years for which the loss has been calculated:

	Cost	Revenue	Loss
1956–57	$ 25,200,000	$ 6,300,000	$ 18,900,000
1958–59	27,900,000	6,200,000	21,700,000
1961–62	32,700,000	8,000,000	24,700,000
1965–66	36,900,000	8,800,000	28,100,000
1966–67	43,010,000	9,223,000	33,787,000

The Public Accounts Committee is of the opinion that sufficient consideration has not been given to the solution of this problem which it first considered in 1958 and in its Fourth Report 1966-67 stated that:

> It considers it essential that the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail without this being done at the expense of other classes of mail, keeping in mind, however, the need of assistance to small independently-owned newspapers circulating in rural areas. (See Appendix 1, item 1.)

We understand that amendments to the Post Office Act which will have a bearing on this problem are to be introduced in the next session of Parliament.

130. *Allowance to land mail contractors for services not performed.* Because of the rail strike in August 1966 and the Air Canada strike in November 1966, some land mail contractors were prevented from fulfilling the terms of their contracts for picking up and delivering mail.

Payments under their contracts during these periods aggregated approximately $31,810 for which no services were rendered.

131. *Cash discounts lost.* Under the provisions of the Public Printing and Stationery Act, R.S., c.226, the Department of Public Printing and Stationery is responsible for the publication and distribution of books and publications.

When submitting tenders to the Department, some commercial firms offer discounts of 1% or 2% for prompt payment. These discounts are taken into consideration when awarding contracts and are in some cases the deciding factor in the award.

Notwithstanding this, discounts amounting to some $18,000, representing the majority of the discounts offered, were lost during the year because of delays in making payments. We were informed by the Department that "the mechanics of the system and the regulations which govern the payment of invoices in this Department, frequently preclude the possibility of effecting payment within the period in which the discount is allowed".

In our opinion effective steps should be taken by the Department to enable it to take advantage of all cash discounts offered.

132. *Losses resulting from the sale of the "Canada Law Reports".* In our 1966 Report (paragraph 117) attention was drawn to the loss of $50,000 incurred by the Crown in 1965 from the sales of Canada Law Reports to the various law societies in Canada at an annual rate of $5 per member. Although the Department of Public Printing and Stationery had recommended to the Registrar of the Supreme Court that the price to the law societies should be set at not less than $10 per member commencing January 1967, no action had been taken by the Registrar to terminate the agreements with the law societies at December 31, 1966. Consequently, the loss on these publications continued throughout the calendar year 1967.

This year the Registrar has given notice of termination of the present agreements with the various law societies to be effective "at the end of the volume for the year 1967".

133. *Public Printing and Stationery Act, R.S., c.226.* The Governor in Council in 1963-64 under the Public Service Rearrangement and Transfer of Duties Act, R.S., c.227, transferred to the Department of Defence Production all functions of the Department of Public Printing and Stationery with the exception of the publication and distribution of books and publications. This latter function remained with the Queen's Printer.

The functions transferred to the Department of Defence Production are now carried out through the Printing Bureau, the Supply Service and the Repair Service, all of which are branches of the Department.

Under this reorganization, the provisions of the Public Printing and Stationery Act, R.S., c.226, have limited significance in the administration of the printing and stationery activities of the Government of Canada. Many sections of the Act are ignored entirely, as follows:

1. The title Queen's Printer and Controller of Stationery is now used only for legal purposes, as the holder of the title is no longer responsible for the operations of the Canadian Government Printing Bureau or for government stationery.
2. Section 4(1)(*a*) charges the Department of Public Printing and Stationery exclusively with the execution of all printing, stereotyping, electrotyping, lithography, binding work, etc. In practice a large share of this work is given to commercial firms.
3. Section 4 (1) (*b*) makes the Department responsible for the purchase and distribution of all paper, books and other articles of stationery. The Department of Defence Production now purchases and distributes paper and stationery items and each department purchases its own books.
4. Section 4 (1) (*d*) makes the Department responsible for the audit of all accounts for advertising. This responsibility is now carried out by the Comptroller of the Treasury.
5. Sections 6 and 7 define the qualifications and duties of the Queen's Printer which are no longer applicable as the title is now used only for legal purposes.
6. Section 8 provides for the appointment of a Director and Superintendent of Printing, a Superintendent of Stationery, an Accountant and a Controller of Purchases and sections 9, 10 and 11 set out the qualifications required for appointment to these positions. The positions are no longer used.
7. Section 14 provides for the organization of a printing establishment at Ottawa. For many years the Printing Bureau has been located in Hull.
8. Sections 16 and 23 provide that the printing and stationery for the railways formerly known as the Intercolonial Railway or the Prince Edward Island Railway may be procured anywhere but that all accounts for printing and stationery are to be examined and certified by the Queen's Printer before being paid.
9. Sections 17 to 19 provide for the establishment of a Stationery Office and outline the duties of the Superintendent of Stationery—an office that is no longer used.
10. Section 20 requires that all moneys received by the Superintendent of Stationery shall be "deposited from time to time in some chartered bank of Canada". Current regulations require receipts in Ottawa to be deposited daily in the Bank of Canada.

11. Section 34(2) requires the Auditor General to at least annually have the stock of stationery, printing materials and supplies checked with the quantities purchased and supplied. This is no longer practical and is much more rigid than the Financial Administration Act under which the Auditor General now operates.

This legislation has remained substantially unchanged since 1886. Although still law it is being disregarded to a great extent as shown above. We believe it should be brought up to date.

134. *Real property inventory.* Our 1966 Report (paragraph 118) explained the background to the introduction of the Real Property Inventory Regulations in May 1966. The regulations require all departments, departmental corporations and Crown corporations as defined in the Financial Administration Act to report to the Department of Public Works, for purposes of making an inventory, all real property holdings, with specified exceptions, and changes as they occur, in a form prescribed by that Department.

Considerable progress has since been made. We are informed that co-operation has been extended by departments and agencies in providing the prescribed information. However, the incompleteness of departmental records in some instances, particularly with respect to minor structures, makes it unlikely that the inventory will be completed for a year or two. The inventory can be updated by computer as required, and the Department of Public Works plans to produce an inventory listing at appropriate intervals as determined by the demand and the number of additional entries.

At the present time about 4,000 properties have been recorded and the first listing is to be made in the near future.

135. *Increasing accommodation rental costs.* Reference was made in last year's Report (paragraph 128) to the fact that when the Department of Public Works leases either general office or special purpose accommodation for the use of another department, no charge is made against the department concerned. A long-standing exception to the general policy, of comparatively slight financial significance, is based on a ruling of the Treasury Board many years ago that the Department charge commercial rates for accommodation made available to non-governmental organizations and Crown corporations.

Although the Royal Commission on Government Organization in its report on Real Property recommended that departments and agencies be charged for accommodation and real property services rendered to them by the Department of Public Works, this recommendation is not among those that have been approved by the Government.

Insofar as leased accommodation is concerned, a comparison of rental costs incurred by the Department in 1964-65 and in 1966-67 points up the increasing importance of the subject. In 1964-65, total rental outlay was $8,866,000, of which $4,448,000 related to premises in Ottawa and Hull. The comparable figures two years later were $17,148,000 and $10,301,000. The marked increase of $5,853,000 for the Ottawa-Hull area reflects not only rising rental rates but also a substantial addition to leased space. Rented accommodation in the area at March 31, 1965 amounted to approximately 2,200,000 square

feet, whereas at March 31, 1967 about 3,650,000 square feet were involved. Leases for space in Ottawa entered into since the close of the year reflect a continuation of this trend.

The absence of any effective criteria as to the location and cost of leased accommodation to be occupied by government departments is a factor contributing to the high level of rental outlays. Although it must absorb the cost of rental out of its own parliamentary appropriation, the Department of Public Works acts as a rental agency serving its client departments. It endeavours to seek out and submit several proposals to the department seeking accommodation and, subject to Treasury Board approval, leaves the ultimate choice to the department. In one case noted recently the accommodation selected was the most prestigious and expensive offered because, as was explained, "they are confident that this proposed accommodation would improve the image of their Commission and would help attract a high calibre of personnel because of the prestige appearance of this building and its excellent location". It is understandably difficult for the Department of Public Works to object to a government department selecting its own accommodation, but if the cost of that accommodation were to be charged to that department and suitably described in the Details of Services in the Estimates, it is reasonable to suppose that the department might be more cost conscious.

We have questioned the Department as to government policy with regard to the leasing of office accommodation and have been informed that the extent to which accommodation has been obtained in recent years through leasing rather than new construction is to a considerable extent the result of the ability of private interests to provide space at advantageous rental rates. An additional factor has been the need to meet space requirements on relatively short notice as the result of departmental reorganizations. The Department added that there is no general policy of national application with regard to leasing. Decisions are made on the basis of conditions in individual communities.

136. *Grant in lieu of taxes to the City of Prince Rupert, B.C.* In 1963 an agreement for a term of 20 years was negotiated by the Department of Public Works with the State of Alaska for the lease to that State of a Crown-owned ferry terminal at Prince Rupert which had been constructed solely for purposes of the Alaska ferry. The agreement provides for payment by the State of 75% of the cost of construction over 20 years plus interest at 5% per annum, plus $4,000 annually on account of maintenance. However, responsibility for municipal taxes was apparently not raised by the Department in its negotiations and as a result the lessee is not bound to pay them as is the usual practice when Crown property is leased.

In 1965 the City of Prince Rupert presented assessment and tax notices for that year to the State whereupon the State turned the matter over to the Department, disclaiming any responsibility for taxes.

In 1966 the Department of Finance informed the Department of Public Works that under the policy consistently followed in administering the Municipal Grants Act it could not include in its calculation of the grant to the City of Prince Rupert property not

occupied by Canada. To do so would establish a precedent which could affect grants on a very large number of Crown properties where there is third party occupancy. It was suggested, therefore, that the Department of Public Works give consideration to making an annual payment to the municipality during the term of the agreement.

In November 1966 the Department of Public Works obtained Executive approval to make an annual grant to the City of Prince Rupert in lieu of taxes on that part of the property not occupied by Canada for customs and immigration purposes, and a payment of $6,099 followed, covering the years 1964-1966. Presumably this outlay, and the ones to be made annually until 1983, would not have been required if consideration had been given to responsibility for taxes during the negotiations leading up to the agreement.

137. *Eating facilities for Crown employees in public buildings.* In our 1966 Report (paragraph 122) we pointed out that one of the conditions involved in the general policy respecting the installation of eating facilities for government employees in public buildings is that cafeterias will be installed only when the public service population is large enough to ensure that the operation can be conducted without any loss of public funds.

We reported that although the Department of Public Works administers all eating facilities in buildings coming under its jurisdiction, the operation of cafeterias is undertaken by the Canadian National Institute for the Blind or recognized employee associations.

Despite the policy that operations be conducted without loss of public funds, they are in fact subsidized on a considerable scale because no charge is made by the Department for space, fixed kitchen and serving counter equipment, tables, chairs, utility costs, etc.

In commenting on food services, the Royal Commission on Government Organization pointed out that although it is common practice for commerce and industry to provide meals to employees at less than cost, such subsidies are carefully costed for purposes of management control. The extent to which cafeteria operations are subsidized, as well as those of numerous canteens, lunch rooms and snack bars in public buildings, cannot be determined until the Department of Public Works completes steps to segregate operating costs by buildings, and in this process isolates the cost of refreshment facilities. We are informed that although a cost system to achieve this is being developed, it is not likely to be completed and applied within the next two or three years. Until the Department is in a position to ascertain on a continuing basis the actual cost of providing cafeterias and similar facilities for public servants, there cannot be optimum management control.

138. *Construction and financing of wharf facilities for exclusive use of private interests, Long Harbour, Nfld.* In 1966 the Department of Public Works was informed that a company planned to make a substantial investment in the construction of two plants for the processing of phosphorus at Long Harbour. As both the supply of raw material and shipment of the company's products would require large water-borne movements, wharf facilities capable of handling 35,000 ton vessels were regarded as essential.

In September 1966 the Treasury Board approved in principle a program under which the Department would construct and finance the required wharf at a cost of from \$2 million to \$3 million, based on estimates without benefit of site data. Approval was also given to the company's proposal that it reimburse the Department's expenditure, with interest, over a period of years.

In March 1967 an Order in Council approved entry by the Crown into an agreement with the company to provide for the designing, construction and financing of the wharf facilities by the Department of Public Works, with the company to repay the total cost of construction in equal payments over a 25-year period commencing upon completion of the work, with interest at 5⅞% per annum. Under the agreement, which was signed in the following month, the company is to have exclusive use of the facilities from the date of completion, with legal title passing to the company when the construction cost has been repaid.

The only direct outlay in connection with the project prior to the year-end was \$57,800 for the services of consultants, charged to the provision for advance planning in Department of Public Works Vote 30, the text of which is:

> Construction, acquisition, major repairs and improvements of, and plans and sites for, harbour and river works (including expenditures on works on other than federal property); provided that no contract may be entered into for new construction with an estimated total cost of \$50,000 or more unless the project is individually listed in the Details of Estimates.

The Details in respect of the same appropriation for 1967-68 contain a Newfoundland item, "Long Harbour—Towards wharf facilities, \$1,500,000". This wording implies that the wharf facilities are to be constructed and owned by Canada in the normal manner. In our view the Details should disclose that the wharf is being built for the sole use of a private company which is to repay the cost to the Crown over a 25-year period with interest, after which title passes to the company.

139. *Additional costs under dredging contracts.* In our 1966 Report (paragraph 126) four cases were noted where dredging or construction costs exceeded estimates by a total of \$629,000 because test borings had produced results not accurately reflecting the nature of the terrain to be dredged or excavated.

Although test borings of the material to be removed had been carried out in each case, there continue to be a number of reasons why the Department of Public Works is unable from its preliminary engineering work to guarantee to a contractor the nature and quantities of material to be removed. Despite the Department's interpretation of the data produced by its limited tests, the result may be that a contractor encounters conditions substantially inconsistent with the contract specifications. The consequence may be increased costs due not only to the necessity of removing quantities greater than anticipated, but also because the plant initially placed on the job may prove to be inadequate to cope with the conditions actually encountered, or the greater extent to which drilling and blasting may be required when material is more compact than probings had indicated.

A new standard contract form introduced in 1963 provides for consideration of extra payment if there is a considerable difference between the actual soil conditions encountered and what might reasonably have been expected from the information given by the Crown to the contractor. Adjustments in unit prices are to be made on the basis of negotiations or payment of cost plus 10% in accordance with a prescribed costing formula. During the year seven cases came to attention where costs totalling $472,000 in excess of estimates were incurred because the results produced by the preliminary engineering were not in accordance with the soil conditions as found.

140. *Consultants' fee in respect of revision of plans, Ottawa.* In 1961 a firm of architects was engaged by the Department of Public Works for the preparation of plans and specifications and subsequent supervision of construction of a plant genetics laboratory building for the Department of Agriculture in Ottawa.

The project was deferred indefinitely in 1962 but revived in 1964 when a review of working drawings with the Department of Agriculture resulted in extensive revisions due to organizational changes which in the interim had been made within that Department. The undertaking was again deferred in 1965 and remains deferred indefinitely at the present time.

In 1962 construction was estimated to cost $2,623,250. In order to "avoid undue hardship" to the consultants, the Treasury Board approved the Department's request for fee payments which reached a total of $123,940 in 1966-67, based on a revised cost estimate of $3,078,900 in 1964. These fee payments included $10,600 for the additional design work which resulted from the 1964 changes in requirements.

Since the final fees to be paid to the consultants are, under the terms of their engagement, to be based on the actual cost of construction, further payments for the completed design work may result if construction is carried out at a cost in excess of the 1964 estimate of $3,078,900.

141. *Additional costs due to construction delays and unused plans, Hull, Que.* The National Printing Bureau at Hull was constructed between June 1949 and March 1957 under separate contracts for the six phases into which the project was divided, at a total cost of $12,173,014.

During the course of the work the contractor for four of the phases submitted a claim for extra costs in the amount of $273,096 which remained under consideration until January 1967 when $146,000 was paid in full settlement. Of this amount $69,770 related to increased costs resulting from delays encountered in obtaining reinforcing steel because of government controls imposed as a result of the war in Korea. A further $9,189 was the consequence of a delay in the vacating of premises by a tenant on the site. The non-productive element of the settlement was therefore $78,959.

The consultant architect had also submitted a claim for unpaid fees, extras and interest which by 1964 amounted to over $95,000. During the year he agreed to accept $57,300 in full settlement. As the settlement gave recognition to an amount of $1,814 in connection with plans not used, this amount must be regarded as non-productive.

142. *Reconstruction of retaining wall, Chatham, Ont.* In 1956 the Department of Public Works reconstructed, at a cost of $25,500, a retaining wall along the bank of the Thames River at the rear of a Chatham hospital. In consideration of this action the hospital authorities agreed to accept the transfer of the Crown's interest in the wall and appurtenant lands and also agreed that after the transfer, which was made in 1958, the Crown would have no further responsibility for the maintenance of the wall or for shore protection, except for anything arising out of neglect or default by the Crown.

In 1964 a landslide occurred and a section of the wall collapsed. The hospital authorities requested the Department to rebuild the wall, whereupon the Department engaged a consultant to determine the cause of its failure. His opinion was that the design of the wall built in 1956 had been adequate; that subsequent to the construction of an extension to the hospital, the authorities had placed a shallow layer of fill on the bank supported by the wall which had been enough to eliminate the safety factor in the design.

As the failure could not be attributed to neglect on the part of the Crown, and in view of the obligation assumed by the hospital in 1956, the request for remedial action was initially declined. In 1965, however, on the basis that a precedent had been set by the construction of a wall to protect another Chatham hospital several years earlier, and as the Province of Ontario was prepared to bear 50% of the cost, the Department decided to proceed with the work. It was completed in 1966 for $143,704, the cost to the Federal Government being $71,852.

The hospital authorities have agreed not to institute any claim in future against the Federal Government in respect of collapse or other damage sustained by property of the hospital resulting from any cause whatsoever connected with the construction of the wall and to repair, maintain and reconstruct it whenever necessary.

143. *Cost resulting from delay in preparation of plans, Ottawa.* In March 1965 the Department of Public Works obtained Treasury Board authority to lease virtually all of the space in a new Ottawa building. Initially it had been proposed to lease a smaller area of the building and it was not until February 1965 that the decision was reached to lease most of it to accommodate the Department of the Secretary of State.

It was agreed that the ten-year term of the lease would commence from the date of occupation and that partitions would be supplied by the lessor at his expense on the basis of layouts and specifications prepared by the Department of Public Works.

The Department of Public Works was unable to provide the owner with partitioning plans during the latter stages of the building construction so that partitions could be installed and the premises be ready for occupancy by April 1, 1965 as had been anticipated by the owner. Although layouts for four floors were provided by April 12, 1965 and the balance by early June, the date of occupancy for rental purposes was not until June 29, 1965.

The Department of Public Works maintained that following approval of entry into the lease a full requirements study and the production of plans could not have been accomplished to permit earlier occupancy. It was conceded, however, that the owner had

suffered financial loss through circumstances over which he had no control. Accordingly, during the current year he was paid $36,889 on an ex gratia basis in settlement of his claim of $166,000 for costs occasioned by the delay.

144. *Cost of unused space, Fabreville, Que.* Early in 1964 the Department of Public Works, at the request of the Department of Defence Production, leased a warehouse at Fabreville at an annual rental of $17,250 for a term of five years for storage of heavy equipment, machine tools, etc., being moved from various locations in Montreal and Quebec City. This term, rather than a shorter one with renewal options, was arranged because the Department of Defence Production gave a firm commitment that the space would be required for a period of five years.

In December 1965 the Department of Defence Production informed the Department of Public Works that in order to reduce administrative costs and save handling charges, a consolidation was being effected in a warehouse at Long Branch, Ont., and the warehouse at Fabreville would not be required after December 15, 1965.

During 1966 the Department of Public Works tried unsuccessfully to find other government departments which might be able to use the space. Efforts to sublet to commercial interests were also unsuccessful, except for an unacceptable offer from an affiliate of the lessor.

In February 1967 the Department of Public Works obtained Executive approval to accept the lessor's offer to issue a quit-lease on the premises, effective January 1, 1967, on payment of $15,000. This amount, together with the $17,969 paid as rent during the period December 16, 1965 to December 31, 1966 while the warehouse remained vacant, resulted in a total non-productive outlay of $32,969.

145. *Cost resulting from construction delays, Ste. Anne de Bellevue, Que.* In December 1959 the Department of Public Works, acting for the Department of Veterans Affairs, awarded a contract for the demolition of an existing laundry building and the construction of a new laundry at Ste. Anne's Hospital, Ste. Anne de Bellevue. The final cost was $448,161, including the contract price of $374,905, items of additional work costing $43,106, and non-productive expenses of $30,150.

Although the planning called for completion of the undertaking in February 1961, it was not finished until March 1962. At that point the contractor submitted a claim which included $53,664 relating to delays to which the work had been subjected. After investigating, the Department of Public Works conceded that delays totalling 93 days had occurred which could be attributed to its failure to provide decisions on change orders within a reasonable time, thus forcing the contractor to maintain idle crews on the site and to incur unnecessary administrative costs.

There is an indication that the consulting architects did not properly assess the operating conditions of the laundry and did not properly co-ordinate their efforts with those of the Department of Veterans Affairs in developing specifications that would adequately cover the installation of the equipment.

During the year settlement in the reduced amount of $30,150 was made with Treasury Board approval.

146. *Additional cost due to inaccurate contract drawings and extension of work period, St. John's, Nfld.* In 1962 the Department of Public Works awarded a contract for the reconstruction of the South Side Road, a phase of harbour improvements at St. John's. The contract price was $714,660 based on lump sum prices, fixed unit rates and estimated quantities. The work was completed in 1964, the final cost being $1,083,587, including the 1966-67 settlement of a claim for extra costs referred to below.

In 1965 the contractor submitted a claim requesting complete renegotiation of the contract because he had suffered a substantial loss on his undertaking. He based his request on the contention that the contract had been altered materially because certain water mains shown on the contract plans had been found to be either absent or in a different location. Although the Department refused to consider renegotiation, it did inform the contractor that if he could show that changes in job conditions resulting from the inaccurate plans had resulted in additional work and costs, the effect of the changes would be considered. As a result, the contractor submitted a detailed claim in support of compensation of $266,218.

The claim was ultimately settled for $179,649. Of this amount $160,526 may be regarded as relating to additional work required to complete the contract. Of the balance, $7,500 resulted from the cancellation of an order for gravel due to rescheduling of the work when it was found that the water mains were not in specified locations, and reordering some months later at an increased cost. The balance of $11,623 related to additional costs for protecting and heating concrete and for under-utilization of equipment because delays, caused when nearby property owners threatened litigation, extended the work period into the winter months. The non-productive element of the settlement is therefore $19,123.

147. *Costs resulting from termination of contracts, Davis Cove and Little Paradise, Nfld.* In December 1965 the Department of Public Works awarded contracts for the reconstruction of the public wharves at Davis Cove, $56,945, and Little Paradise, $65,653, the same contractor being involved in each instance.

Early in 1966 the Government of Newfoundland announced plans for the construction of a new fish plant, and a ship building and repair facility in the nearby community of Marystown. It was estimated that this development would require a substantial labour force to be drawn from surrounding communities, including Little Paradise and Davis Cove. After local citizens had applied to a provincial body for financial assistance towards resettlement, and it appeared that the two communities would be depopulated in the near future, the Department decided that reconstruction of the wharves should not be proceeded with and the contracts were terminated.

Although no actual construction work had been carried out, a settlement of $17,852 was negotiated with the contractor to compensate him for preliminary and closing-out costs.

148. *Ex gratia payment to the Town of Jerseyside, Nfld.* In October 1964 the Town of Jerseyside agreed to sell to the Department of Public Works for $2,000 a parcel of land with a frontage of 70 feet and a depth of approximately 80 feet as the site for a small post office.

As is sometimes done to ensure that an early start on construction can be made, whether or not there is a delay in the formal acquisition of a site, a notice of expropriation of the property was registered on December 16, 1964. It was then found that the site was part of a 14-acre parcel of land which the Canadian National Railways owned and was in the process of selling to the Town for $350. The site required by the Department was later acquired from the Railways at no cost, and the municipality obtained title to the balance of the property.

It appeared, however, that both the acquisition of the land and the payment of $2,000 by the Department were basic to the Centennial plans of the community. In December 1966 an Order in Council authorized the payment of $2,000 to the Town on an ex gratia basis "in the default of purchase by the Department of Public Works of land from the Town of Jerseyside".

149. *Failure to file statements.* Section 121F of the Canada Corporations Act, R.S., c.53, requires a public company to file a copy of its financial statement with the Registrar General within seven days after mailing to its shareholders. A filing fee of $5 is set by the tariff of fees.

At March 31, 1967, 875 public companies were in default in filing financial statements, some since 1962. In addition, 282 companies had never filed a financial statement since incorporation, some as far back as 1917. The Act makes no provision for penalties for failure to file financial statements and there appears to be nothing that the Registrar General can do to enforce such filing.

Section 125 of the Act requires every company (both public and private) to file with the Registrar General annual returns on or before the first day of June in every year giving certain information concerning the company and its directors. The annual filing fee is $5 or $10 depending on whether the company has share capital or is without share capital. Section 125 also provides for a fine on summary conviction not exceeding $20 a day where a company, its directors or officers, are in default in the filing of the annual return. To the best of our knowledge this penalty clause has never been invoked by the Department.

If companies do not file the annual returns for three consecutive years (now reduced to two years) there is provision in section 125 for the Registrar General to give a year's notice that the company will be dissolved unless it files the returns as required. As of June 1, 1967, there were 7,143 companies in default in the filing of these returns. The names of 1,434 companies have been published in the Canada Gazette for failure to file and 605 of these companies have been dissolved, with another 506 now in the process of being dissolved; 323 of the companies filed the returns upon publication of the notice.

A great many of these companies are inactive and the provision for dissolution serves a useful purpose in clearing their names from the record. Those companies which do file

returns after their names have been published are obviously not dormant and presumably could be convicted for a breach of the law but no such action is ever taken and thus the penalty provisions of section 125 of the Act have been completely inoperative.

150. *Costs of supervision of race track betting not recovered by the R.C.M.P.* Section 178(3) of the Criminal Code, 1953-54, c.51, provides that no pari-mutuel system of betting shall be used upon any race course unless the system has been approved by and its operation is carried on under the supervision (at the expense of the associations involved) of an officer appointed by the Minister of Agriculture. The Department of Agriculture maintains a small headquarters staff but in general the supervisory work is carried out by members of the Royal Canadian Mounted Police.

Although the Force bills the Department for its services, a number of cost elements are not taken into consideration. The billings are based on the pay and plain clothes allowance of members for each day worked at a race track and while travelling, together with associated living and transportation expenses. No provision is made, however, for costs such as leave entitlement earned, pensions, medical expenses and supervision.

The Department of Agriculture was charged $403,000 for the Force's services in respect of the supervision of race track betting during 1966-67. Although no precise calculation has been made of the unbilled indirect expenses for the same period, we estimate that an additional amount in excess of $200,000 would be involved.

The Force has had the matter of assistance to the Department of Agriculture in the field of pari-mutuel supervision under study since 1963. It is of the opinion that, as the duties involved are not of a law enforcement nature, they could be performed by civilian supervisors of the Department, thereby alleviating the Force's manpower problem. The Department, on the other hand, has suggested that as the Force has played a major part in the supervision for many years, it would be appropriate for the Force to assume complete responsibility for the entire operation.

In the event that the R.C.M.P. continues to act in its present capacity, charges to the Department should provide for the recovery of all cost elements.

151. *Deficit on inspection services.* The Department of Trade and Commerce is responsible for the administration of the Gas Inspection Act, R.S., c.129, the Electricity Inspection Act, R.S., c.94, and the Weights and Measures Act, R.S., c.292. As authorized by these statutes, fees are charged for the related inspection services. Two of the statutes specify that fees are to be regulated so as to meet the cost of carrying these Acts into effect and, although the Weights and Measures Act does not explicitly require revenues from fees to match the cost of the inspection services, it is our view that they should do so.

In our 1965 Report and 1966 Report (paragraph 130) we pointed out that direct costs of administration of these statutes had exceeded revenues for a number of years and recommended a complete reassessment of the rate structure in order to recover to the extent possible the total cost of the services. There has been no change in the rate structure and, for the year ended aMrch 31, 1967, direct costs of administration exceeded

revenues by $1,084,000. These costs include only salaries and expenses of district offices. The inclusion of the costs of operating a laboratory, administration and services provided by other departments would increase the deficit to an estimated $2,110,000.

As the following table shows, the deficit has been increasing steadily:

	Year ended March 31			
	1967	1966	1965	1964
Inspection of electricity and gas—				
Direct costs	$ 1,494,000	$ 1,365,000	$ 1,323,000	$ 1,193,000
Revenue	1,128,000	1,141,000	1,103,000	1,056,000
	366,000	224,000	220,000	137,000
Other costs	451,000	449,000	474,000	456,000
Deficit	817,000	673,000	694,000	593,000
Inspection of weights and measures—				
Direct costs	1,874,000	1,668,000	1,605,000	1,459,000
Revenue	1,156,000	1,153,000	1,191,000	1,117,000
	718,000	515,000	414,000	342,000
Other costs	575,000	526,000	579,000	557,000
Deficit	1,293,000	1,041,000	993,000	899,000
Total deficit	$ 2,110,000	$ 1,714,000	$ 1,687,000	$ 1,492,000

We understand that recommendations concerning amendments to the Gas Inspection ıct, the Electricity Inspection Act and the Weights and Measures Act which would ıcorporate proposals in respect of the fee structure, were deferred "pending review of he recommendations which may be made by the [Special Joint Senate Commons] 'ommittee [on Consumer Credit and Cost of Living] and which may have implications or the above-mentioned statutes".

152. *Projection system abandoned before completion.* A projection system was equired for installation at the base of a large exhibit in the Canadian Pavilion at the 967 World Exhibition. After a feasibility study, two firms were awarded a joint contract or approximately $80,000 to produce a "rear screen" projection system.

The contract provided that one of four divisions was to be completed first in rder to ensure that the system was acceptable. The system proved unsuitable, mainly ecause of the problem of surrounding light washing out the picture. The project was bandoned and the contractors were paid $13,000 plus $800 for their feasibility study.

A "front screen" projection system which was developed by one of the joint conactors proved acceptable and was installed at a cost of $63,000.

153. *Artificial computer constructed and then abandoned.* Having determined that computer suppliers were unwilling to provide equipment for use in an exhibit, other than at their standard tariff, the Department of Trade and Commerce awarded a contract on November 9, 1965 for the fabrication of an artificial computer centre for display within the Canadian Pavilion at the 1967 World Exhibition. This exhibit was completed in March 1966 at a cost of $54,000.

A computer manufacturer then became interested and offered to install a live computer centre at no cost to the Government. As the agreement with the Canadian Corporation for the 1967 World Exhibition provided that the Canadian pavilion would be limited solely to the representation of Canada, and that any persons, firms or corporations might only participate in the Exhibition subject to the authority of the Commissioner General of the Exhibition, the manufacturer was asked to make his proposal to the Corporation directly. It later developed that the Canadian Corporation for the 1967 World Exhibition had need for more computer capacity but had no suitable accommodation for an installation. Accordingly, it sought assistance from the Canadian Government whose pavilion was thus provided with an opportunity to house and exhibit a live computer at a nominal rental of $10,000.

The artificial computer centre was abandoned but equipment valued at $21,000 was salvaged and incorporated into other exhibits leaving an amount of $33,000 as the cost of the abandoned work.

154. *Additional cost arising from an exchange of ship construction contracts.* Paragraph 135 of last year's Report presented the circumstances under which the Department of Transport arranged for the exchange of two ship construction contracts between companies. The reason for the exchange was the likelihood that the company which had been awarded a contract for the construction of an icebreaking, rail car, automobile and passenger ferry for service in the Northumberland Strait would be unable to meet a mid-1967 delivery date. The contract was transferred to a second company, at the same price of $13,199,000, with the vessel to be completed not later than September 27, 1967. In return the first company received a contract for the construction of an icebreaking, buoy tending and supply vessel for the Gulf of St. Lawrence service at the original contract price of $10,231,000. In addition, however, this contractor was paid $200,000 as recompense for a portion of his administrative overhead which could not be absorbed because of the transfer of the ferry contract.

The expected benefit from the exchange, namely the 1967 completion of the ferry vessel, has not materialized, the contractor being unable to deliver before September 1968. One reason for the extension is serious delay in the delivery of components of the main propulsion system. Further delay is the consequence of the diversion, with the concurrence of the Department, of material which had been allocated to the Northumberland Strait ferry to another vessel being constructed for the Department in the same shipyard.

155. *Additional costs due to contract cancellation, Trois-Rivières, Que.* In our 1966 Report (paragraph 136) reference was made to a 1960 contract for the construction of

unway, a parking area, a connecting taxiway and an access road at the Trois-Rivières irport. The circumstances under which the contract was taken out of the hands of the riginal contractor and given to the second lowest tenderer to complete were described. t was stated that the original contractor had sued for work completed up to the time he vas ordered off the site and for damages sustained as a result of the cancellation of his ontract; that counter-suit had been brought against him for the additional costs incurred n having the contract completed by another contractor; and that the Exchequer Court f Canada had ruled in favour of the contractor in respect of both suit and counter-suit, warding him an additional $28,594 for work performed and $4,500 in damages. As a esult, the cost of the undertaking, which on the basis of final quantities would have been 462,433 if the original contractor had proceeded with the job to completion, could be in xcess of $625,000 after payment of the Court award and associated costs.

The Crown appealed the judgment of the Exchequer Court and in June 1967 the upreme Court of Canada maintained the appeal and the Crown's cross-demand, the mount to be later adjudicated.

The Department had previously endeavoured to invoke the performance bond rovided by the first contractor but the bonding company had refused to accept any sponsibility, contending that the bond became invalid when, without prior reference it, the contract was cancelled by the Department of Transport and the completion the work entrusted to another contractor. Since the rendering of judgment by the upreme Court, the Department of Justice has proceeded with an action against the nding company.

Pending the adjudication of the amount involved in the Crown's successful cross-mand against the original contractor and the obtaining of judgment on the action gainst the bonding company, the cost of the work undertaken at the Trois-Rivières air-rt in 1960-61 cannot finally be established.

156. *Cost of consultants' claim, Edmonton, Alta.* In 1958 architects were retained the Department of Transport for the design and construction supervision of an air rminal building and associated facilities at the Edmonton International Airport. Con-ruction began in 1960 and, although occupied by the Department and opened to the iblic in December 1963—about ten months ahead of schedule—the work was not for-ally accepted until September 1966, at a cost of $10,811,147. (See paragraph 127 of our 65 Report.)

During their engagement the consultants made a number of claims for work per-rmed which was not compensative under their agreement and for the cost to them of lays during the construction period. Lengthy negotiations led to the acceptance in nuary 1967 of a settlement of $26,000, of which $16,700 may be regarded as non-pro-ctive. Abandoned plans were mainly responsible for $6,700 of this amount. The bal-ce of $10,000 was the amount which the Department felt could reasonably be offered cover a large number of debatable items which had already involved many time-con-ming investigations by its officers and those of other departments.

The 1967 settlement brought the total payment to the architects to $688,815, including $70,000 paid in 1960 for original design work which was abandoned when substantial revisions in the size of the proposed terminal building were required.

157. *Cost of building construction delay due to redesign of foundation system, Winnipeg, Man.* In 1960 the Department of Transport awarded a contract in the amount of $1,290,660 for the construction of a power house for the air terminal building at the Winnipeg International Airport. The contract was completed in 1962 at a cost of $1,445,949.

The plans for the foundation work required caissons to be constructed with six inch penetration into hardpan. It was not then known that the hardpan did not exist at the level expected under approximately 50% of the site; instead about 42 feet of water-bearing sand and gravel under artesian pressure lay between the surface and rock strata. The result was that the contractor encountered severe water conditions in this area. After he expressed unwillingness to proceed as planned because of this circumstance, an intensive soil investigation was made. As a result the foundation system was redesigned to permit the use of a type of pile in substitution for the remaining caissons.

On completion of construction of the power house the contractor submitted a claim for extra costs incurred because the soil conditions were not as specified. Lengthy negotiations extending to 1966 led to a payment of $20,165, of which $9,373 was in recognition of shut-down costs and other expenses incurred as a result of a three-month delay while the foundation system was being redesigned. The balance of $10,792 was for diamond drilling undertaken by the contractor on his own initiative, the results of which proved useful to the Department, and for the load-testing of a caisson at the request of the Department.

158. *Cost of "dead-freight".* The Department of Transport acts as a co-ordinating agency for the assembly, transportation, and delivery of supplies to the Arctic on behalf of government departments and commercial and private concerns in departmental vessels or in vessels operated by commercial shipping companies.

In our 1965 Report reference was made to a "dead-freight" charge of $44,000 resulting from the delivery to a shipping company in Montreal of cargo which was considerably short of what had been expected. Although the Department of Northern Affairs and National Resources was primarily responsible for the situation, the entire cost of $44,000 was met by the Department of Transport.

In its Eighth Report 1966-67 the Public Accounts Committee urged that a more intensive effort be made to assess requirements sufficiently in advance of a shipment to ensure that the safeguard of a penalty clause for failure to meet delivery dates can be inserted in contracts with suppliers, and expressed the opinion that the Department of Northern Affairs and National Resources should have borne the cost of that element of the non-productive payment of $44,000 attributable to it.

During the current year the Department of Transport paid $41,334 to shipping companies for short-shipments in connection with the movement of cargo to the Eastern Arctic. Of this amount $35,184 related to the 1965 shipping season and the balance to the 1966 season. As only $2,758 was the responsibility of the Department of Transport, $38,576 was charged to other government departments and private interests. The Department of Northern Affairs and National Resources (now the Department of Indian Affairs and Northern Development) was again primarily responsible for the short-shipments, $31,145 being the cost incurred on its behalf. The records of that Department indicate that the freight shortage was mainly the result of a number of prefabricated buildings not reaching Montreal in 1965 in time to meet shipping dates.

The Department of Justice has suggested to the Department of Transport that in order to avoid future "dead-freight" costs, consideration should be given to altering the purchase order forms in use to clearly indicate the position of the Department in the event that cargo at time of shipment is less than planned. The purpose would be to induce the shipping companies concerned to enter into negotiations with the Department if they are not prepared to enter into a contract under the amended terms. This suggestion has not yet been acted upon.

159. *Cost of removal of oil from derelict.* In our 1965 Report reference was made to costs in excess of $430,000 incurred by the Crown in connection with the removal of an abandoned sunken wreck containing an oil cargo which, though not a menace to navigation, was considered to be a serious threat to water fowl, marine life and coastal property. This cost was borne by the Crown because in the circumstances there was no legislation under which the private interests involved could be held responsible for the removal of the wreck or for costs if removal was undertaken by the Crown.

The Public Accounts Committee, in its Eighth Report 1966-67 (see Appendix 1, item 40) recommended that the Department of Transport take immediate steps to introduce the necessary legislation so that the Crown may be protected from such costs in future. In our 1966 Report (paragraph 132) we stated that we had been informed that the Department intended to include such a proposal among others for amendments to the Canada Shipping Act, R.S., c.29. Although the Department suggested that amendments be introduced during the 1967 session of Parliament, which among other things would provide for the recovery of the cost of removing a wreck which was a potential source of pollution, this was not done.

During the year the Department of Transport incurred substantial costs in connection with another case similar to the one reported upon in 1965.

On December 20, 1963 a vessel of foreign registry, without cargo, went hard aground on the west coast of the Magdalen Islands, Que., with approximately 350 to 450 tons of fuel oil in her tanks. Her position was such that she did not constitute a hazard to navigation and an investigation at the time indicated that there was little likelihood of the vessel breaking up for some years.

During the summer of 1964, after becoming aware that the people in the area were apprehensive that oil pollution from the wreck would destroy the local fishing industry, the Department made a thorough survey of the situation. As a result attempts were made to have the owners remove the fuel oil or to obtain consent for the Department to do so, but these efforts were unsuccessful until June 1965 when the Department was permitted to proceed. In September 1965 a contract was awarded for the removal of the fuel oil for a lump sum price of $37,385. This contract was only partially completed, $4,000 having been paid against a progress estimate, when in March 1966 the contractor abandoned his undertaking and the contract was terminated.

By this time, as a result of storm damage suffered late in 1965, it was apparent that the hull was breaking up and that it was imperative that the fuel oil be disposed of as soon as possible. A new contract was arranged in November 1966 and the fuel oil removed at a cost of $383,000.

We inquired of the Department as to why earlier action could not have been taken to remove the danger from oil pollution and why no attempt was made to recover the costs incurred from the owners of the vessel. We were informed that no such action was possible as the wreck was not a hazard to shipping.

160. *Escalation of costs relating to construction of a Communications Satellite Ground Station, Mill Village, N.S.* In January 1963 the Department of Transport obtained approval in principle from the Treasury Board to proceed with the planning for the construction of a Communications Satellite Ground Station.

Noting that the estimated cost, based on first approximations, could vary between $3,000,000 and $5,500,000, depending on the amount of developmental work and the degree of versatility incorporated into the Station, the Board requested that every effort be made to keep the cost as low as possible, commensurate with the actual program requirements.

The construction of the facility was well advanced in February 1965 when the Department sought and obtained Treasury Board approval to increase the total expenditure to $9,100,000. This was followed in January 1966 by authority for an interim increase to $12,000,000, at which time the Board was informed that the final amount required would likely be in the vicinity of $13,000,000. The total expenditure reported in the Public Accounts to March 31, 1967 under "Earth space satellite communication system" is in excess of $11,700,000.

After approval of the program in 1963, a number of contracts were entered into, including the following:

(*a*) A contract was awarded in June 1963 for the making of an engineering study and the submission of a firm engineering proposal, together with costing information, including the estimated costs of proof of performance tests, and other documentation and sound economic data for the planned construction of the Station. When approving of this contract the Treasury Board authorized the same contractor to be designated as the Systems Integration Contractor provided that satisfactory performance was achieved on this

contract and that mutually acceptable terms could be negotiated. The contract was completed at a cost of $50,000.

(*b*) After receipt of this engineering study report, in October 1963 the Treasury Board approved of entry into an implementation agreement with the same contractor, providing for project management, systems engineering and the supply of equipment and field engineering for the Station, at an estimated cost of $5 million. Under this contract the Department undertook to provide the necessary buildings.

Despite the fact that the contract for the engineering study had called for costing information with respect to a firm engineering proposal, this contract did not provide for a target incentive price or a ceiling price subject to renegotiation on equitable terms in the event of an abnormal profit or loss to the contractor. Instead, it called for a lump sum price for project management and for payment of fixed per diem rates with respect to the services of professional and technical staff and cost plus a fee based on cost for the manufacture of equipment, there being no reference to an overall price.

Costs under this contract amounted to $8,539,000 to March 31, 1967. In some degree the substantial increase over the estimate of $5 million was undoubtedly due to the rapidly changing technology involved which bordered on, and in some instances went beyond, "the state of the art". This required judgments as to the nature and scope of the research and development and associated costs necessary to achieve the contract objectives. In addition, problems of control were created when the capabilities of the Station, which originally had been primarily directed towards an experimental space program, were expanded to meet the requirements of commercial as well as experimental operations.

However, a major factor contributing to the excess of costs over the estimate appears to have been the lack of cost control permitted by both the nature of the cost-plus contract and the administrative arrangements. Technical officers of the Department exercised control over both the work and costs but there does not appear to have been close liaison with the financial officers of the Department except in the closing stages of the contract. A project administrator was not appointed until the work was approaching finality by which time the Department had twice permitted commitments to greatly exceed approved amounts without further reference to the Treasury Board. When this situation was noted, the Board took the unusual step of assigning a member of its secretariat to the departmental unit established to negotiate a wind-up on a favourable basis

(*c*) A contract for the necessary buildings with related structures for the Station was entered into in July 1964 at an original contract price of $1,155,000. This was the lowest of three tenders received, although the Department's estimate prior to inviting tenders had been $795,000. The considerable difference between this estimate and the lowest tender was regarded by departmental officials as due to the wariness of bidders because of the possible consequences involved in the specified strict co-ordination required with other phases of construction. The final cost of this contract was $1,287,000.

(*d*) In April 1965 the Department was authorized to retain consultants to examine, assess, evaluate and advise on the suitability of certain systems provided under the systems integration contract. The estimated cost of this contract was $90,000 based on per diem rates and living and travelling expenses. The actual cost was $289,000. The increase was attributed in large part to the fact that, as the technique of communicating by way of satellites was very much in its infancy, it was necessary to use the services of the consultants to a much greater extent than originally anticipated to search out problem areas and to investigate alternative approaches. Losses on short notice of departmental engineering staff also resulted in additional demands on the consultants.

161. *Additional cost of little-used railway spur line, Pointe-au-Père, Que.* In our 1965 Report we described the circumstances under which the Department of Public Works spent $401,000 in 1961 for the acquisition of the site and the construction of the right of way of a railway spur line at Pointe-au-Père. The rails and associated equipment of the line for which there was an annual rental of $4,169 had been installed by the Canadian National Railways. However, the annual rental was not being paid by the Department of Transport to which the line had been transferred on completion. The facility had rarely been used.

In July 1966 the Railways' interest in the line was purchased for $129,346 from funds provided in Department of Transport Vote 20a, and the accumulated unpaid rental of $25,014 was forgiven. The information appearing in the Estimates details in support of this Vote read "Construction of Railway Siding at Pointe-au-Père, Quebec", although in fact construction had been completed in 1961.

162. *Awards under the Pension Act.* In paragraph 140 of our 1966 Report and in previous Reports we have pointed out that, due to inconsistencies and ambiguities in the Pension Act, R.S., c.207, it was difficult to determine whether or not awards were in conformity with the provisions of the Act, particularly those awards granted on a discretionary or compassionate basis and to persons in a dependent condition. The Public Accounts Committee in its Eighth Report 1964-65 had made recommendations designed to overcome these shortcomings (see Appendix 1, item 23) and the Minister of Veterans Affairs, in a letter to the Chairman on March 3, 1965, had commented on recommendations of the Committee. However, the Committee had not yet considered these comments.

We also pointed out last year that no report had been received from the Committee set up in September 1965 to survey the organization and work of the Canadian Pension Commission including the interpretation by the Canadian Pension Commission of such sections of the Pension Act as in the opinion of the Committee should be considered.

The situation remained unchanged throughout 1966-67. The Minister's letter of March 1965 and a further letter of June 21, 1967 have not yet been considered by the Public Accounts Committee. Furthermore, the Committee appointed in 1965 to survey the operations of the Canadian Pension Commission, which was expected to report with its recommendations to the Minister within three months of the date of appointment or as soon thereafter as possible, has still not reported.

Clarification of the Pension Act is particularly necessary because the usual checks provided for the protection of the Crown do not operate with respect to it. Subsections (1) and (5) of section 5 of the Act read as follows:

> 5. (1) Subject to the provisions of this Act and of any regulations, the Commission has full and unrestricted power and authority and exclusive jurisdiction to deal with and adjudicate upon all matters and questions relating to the award, increase, decrease, suspension or cancellation of any pension under this Act and to the recovery of any overpayment that may have been made; and effect shall be given by the Department and the Comptroller of the Treasury to the decisions of the Commission.
>
> (5) The Commission shall determine any question of interpretation of this Act and the decision of the Commission on any such question is final.

Not only are the Department and the Comptroller of the Treasury, in fulfilling their functions with respect to the payments of pensions and recovery of overpayments, thus barred from taking their normal part in protecting the Crown but the advice of the Department of Justice is not available in the interpretation of the conflicting provisions of the Act.

163. *War veterans allowances.* Our previous Reports have commented on various matters relating to the administration of the War Veterans Allowance Act, R.S., c.340. In paragraph 141 of our 1966 Report we noted that the Public Accounts Committee had reviewed our comments and had recommended in its Eighth Report 1964-65 (see Appendix 1, item 24) that all cases of deliberate deception in respect of awards under the Act be vigorously prosecuted; that mortgages or agreements for sale held by recipients be recognized as either personal property or an interest in real property and that a reasonable return on these equities be assumed; and that where the presence of a child is the reason for an award at married rates, the income of the child, unless exempted under the Act, be taken into account in determining the amount of the award. We further observed that comments on these recommendations made by the Minister of Veterans Affairs, in a letter dated March 3, 1965 to the Chairman of the Public Accounts Committee, had not yet been considered by the Committee. We noted the War Veterans Allowance Regulations had been amended in June 1965 so that principal and interest payments received in any year under a mortgage or agreement for sale in respect of property were to be considered as income; and if these payments were deemed to be inadequate or so arranged as to qualify an applicant for an allowance under the Act, a fair and reasonable return would be assessed, thus meeting in part one of the Committee's recommendations.

There has been no change in this situation since our 1966 Report—the Minister's letter of March 1965 and a further letter from him to the Chairman of the Public Accounts Committee under date of June 21, 1967 have still to be considered by the Committee.

Our examination during the year brought to light six more cases of overpayments totalling $8,147. An overpayment of $3,345 was the result of considerable employment of both the recipient and his wife over a period of five years with failure to disclose earnings in excess of those permitted under the Act. We did not note any cases of prosecution to enforce penalties under the Act and its Regulations.

164. *Unrealistic meal charges in departmental hospitals.* The revenue credited to Department of Veterans Affairs Vote 30, which provides for the operation and maintenance of hospitals and related services, included $429,000 for meals provided to staff and visitors in hospital cafeterias and senior staff dining rooms. Charges for full course meals, which were set in 1952, are breakfast 30 cents, dinner 45 cents and supper 30 cents in the cafeterias, with an extra ten cents per meal charged in the senior staff dining rooms where full table service is provided.

While it is a common management practice to subsidize meals in large institutions such as factories and hospitals, the degree of subsidization in the Department's hospitals is extremely high. Cost figures produced for the 1965-66 fiscal year show $1.33 as the average cost per meal so that there is a substantial loss on each meal served. When Sunnybrook Hospital was transferred in 1966 from the Department of Veterans Affairs to the University of Toronto, the new authority closed the senior staff dining room and introduced in the cafeteria a system of pricing individual food items so that a midday meal, comparable to that provided by the Department at 45 cents, is now priced at 90 cents to $1.00.

It appears obvious that a more realistic pricing policy is required in departmental hospitals.

165. *Federal-provincial shared-cost programs.* Although information regarding Canada's contribution towards each sizeable federal-provincial shared-cost program is available in Volume II of the Public Accounts in the details of expenditure of the departments administering the contributions, nowhere is the substantial overall total of federal contributions to shared-cost programs provided on a regular basis. The last published compilation of these costs was contained in a booklet prepared in 1963 by the Federal-Provincial Relations Division of the Department of Finance for the use of members of the Federal-Provincial Continuing Committee on Fiscal and Economic Matters meeting in that year.

In our 1966 Report (paragraph 143) we expressed the belief that it would be informative to the House if a detailed summary of the numerous federal-provincial shared-cost programs were more readily available, which would show the federal share of the costs on an annual and cumulative basis, and suggested that this be shown as an appendix in the Public Accounts. This suggestion has not yet been considered by the Public Accounts Committee.

A comparison of the federal expenditures under these programs for 1966-67 with those of the preceding year follows:

	1966–67		1965–66	
Programs in which costs are shared with:	No. of programs	Amount	No. of programs	Amount
All provinces	24	$ 596,541,000	24	$ 471,988,000
More than one but not all provinces	43	482,179,000	40	394,828,000
Only one province	30	61,162,000	23	49,221,000
	97	$ 1,139,882,000	87	$ 916,037,000

The following is a listing, by departments, of the major programs, each of which involved expenditure during the year in excess of $10 million, showing also the comparable amounts spent on these programs in the previous year:

Department and program	Amount 1966–67	Amount 1965–66
Agriculture—		
South Saskatchewan River irrigation and power project	$ 11,303,000	$ 15,129,000
Forestry and Rural Development—		
Agricultural rehabilitation and development	13,728,000	10,160,000
Manpower and Immigration—		
*Technical and vocational training	219,764,000	151,421,000
Municipal winter works incentive	37,473,000	40,989,000
National Health and Welfare—		
*Hospital insurance and diagnostic services	396,277,000	318,528,000
*Unemployment assistance	143,116,000	101,572,000
*General health grants	28,501,000	27,708,000
*Old age assistance	19,626,000	26,855,000
Hospital construction grants	16,381,000	17,586,000
*Disabled persons allowances	15,013,000	14,958,000
Canada Assistance Plan payments	10,496,000	–
Public Works—		
Trans-Canada Highway	81,015,000	83,423,000
Secretary of State—		
Centennial Commission—Grants to provinces for projects of a lasting nature	18,840,000	4,469,000
Transport—		
Atlantic Development Board—various projects	35,160,000	21,856,000
	$ 1,046,693,000	$ 834,654,000

*The Province of Quebec has opted out of all or part of these programs.

The expenditures shown are direct costs only and do not include any administrative expenses incurred by the Federal Government.

The total expenditures do not include tax abatements and tax equalization payments of $246,540,000 in 1966-67 and $252,519,000 in 1965-66 to the Province of Quebec, following its election in 1965 under the Established Programs (Interim Arrangements) Act, 1964-65, c.54, to wholly administer and finance certain standing programs. These programs are hospital insurance and diagnostic services, old age assistance, blind persons allowances, disabled persons allowances, the welfare portion of unemployment assistance and certain aspects of technical and vocational training and general health grants.

166. *Statements requested by the Public Accounts Committee.* Volume II of the 1967 Public Accounts includes section 45, "Miscellaneous Statements". It consists of four statements prepared by the Comptroller of the Treasury showing additional information recommended by the Public Accounts Committee in its Ninth Report 1964-65 for inclusion in the Public Accounts.

The attention of the House is directed to these statements because they contain information of interest, particularly to the members of the Public Accounts Committee.

1. Educational leave costs—Page 45.2

   This statement summarizes the cost of educational leave granted to employees under section 73 of the Civil Service Regulations which, effective March 13, 1967, became section 57 of the Public Service Terms and Conditions of Employment Regulations.

   It will be noted from the statement that the total costs involving 504 employees for the year 1966-67 amounted to $937,743. The comparable amount for the previous year was $600,893 and involved 290 employees.

2. Losses of $1,000 or more due to accidental destruction of, or damage to, assets which would normally be covered by insurance had such coverage existed—Page 45.3

   Previously, this statement covered all losses due to accidental destruction of, or damage to, assets which would normally be covered by insurance had such coverage existed. However, the statement presented in the 1967 Public Accounts covers only losses of $1,000 or more.

   The statement shows that such losses (of $1,000 or more) amounted to $1,959,939 in 1966-67 compared with total losses of $4,791,800 in the previous year.

3. Report of surplus material disposed of in 1966-67—Pages 45.4 to 45.5

   A comparative summary of the surplus material disposed of in 1966-67 and 1965-66, subject to the footnotes shown on the statement appearing in the 1967 Public Accounts, follows:

	1966–67		1965–66	
	Cost	Value obtained	Cost	Value obtained
Obsolete but serviceable........	$ 30,821,000	$ 788,000	$ 48,761,000	$ 1,435,000
Surplus but serviceable........	85,396,000	8,437,000	54,983,000	3,262,000
	$ 116,217,000	9,225,000	$ 103,744,000	4,697,000
Surplus but repairable.........		3,867,000		4,634,000
Scrap........................		836,000		846,000
		$ 13,928,000		$ 10,177,000

4. Summary of accounts properly chargeable to the fiscal year 1966-67 but carried over to the fiscal year 1967-68—Pages 45.6 to 45.9

   This statement is commented on in the following paragraph.

167. *Unpaid accounts carried forward to new fiscal year.* A statement of amounts properly chargeable to 1966-67 which were not paid in that year appears on pages 45.6 to 45.9 of Volume II of the Public Accounts. The statement reveals that 37 departments

and agencies had such accounts, compared with 30 in the previous year. The amounts shown in the statements are divided into four categories, the totals of which compare with the previous year's totals as follows:

	March 31 1967	March 31 1966
Insufficient funds	$ 12,253,000	$ 5,341,000
Accounts received in the paying office on or before the last day for payment	4,698,000	4,985,000
Accounts received in the paying office after the last day for payment	10,216,000	19,088,000
Accounts held by the department	2,922,000	1,940,000
	$ 30,089,000	$ 31,354,000

Not included in the statement are unpaid accounts amounting to $1,595,000, including $512,000 which could not be paid because of insufficient funds. These accounts were not received in time for payment, so the overall total for the last two categories was $14,733,000. A review of lapsings within the relative votes revealed that of this amount, $9,048,000 could have been paid had the accounts been received in time but $5,685,000 could not have been paid because of lack of funds.

No explanations are given in the statement for the non-payment in the year of accounts totalling $4,698,000 which were in the paying offices before the last day for payment. Funds in fact were available in the 1966-67 appropriations to cover payment of $4,689,000 of this amount.

The reasons for non-payment of these accounts may therefore be summarized, with the comparable amounts for the preceding year, as follows:

	March 31 1967	March 31 1966
Failure to pay although funds were available	$ 4,689,000	$ 4,113,000
Failure to get accounts in on time	9,048,000	14,638,000
Failure to seek supplementary appropriations	12,262,000	6,482,000
Failure to get accounts in on time and to seek supplementary appropriations	5,685,000	6,390,000
	$ 31,684,000	$ 31,623,000

From this summary it will be noted that the unpaid accounts at each year-end were approximately the same, so that there was no adverse effect on the total expenditure charged to 1966-67 appropriations. However, the 1966-67 appropriations were intended to cover amounts coming in course of payment during that year and technically they were overspent by $17,947,000.

Another charge applicable to the year but which has been carried forward as part of the current assets item "Departmental working capital advances" is an amount of $1,160,000 included in the balance of $1,741,000 in the "Agricultural Products Board Account" (see paragraph 172 of this Report). This is the amount by which the provision in Department of Agriculture Vote 17g fell short of meeting the loss of $6,823,000, exclusive of the estimated value of major services provided without charge by government departments, experienced by the Agricultural Products Board during the year (see also paragraph 252).

168. *Losses through the fraud, default or mistake of any person.* Section 70(1)(e) of the Financial Administration Act provides that the Auditor General shall report annually to the House of Commons every case in which he has observed that there has been a deficiency or a loss through the fraud, default or mistake of any person.

During the year, 29 losses totalling $26,382 were noted resulting from defalcations or other fraudulent acts of public officers. Amounts totalling $1,800 were recovered, leaving net losses of $24,582. These are summarized as follows:

Department	Number	Initial loss	Recoveries	Net loss
Fisheries	1	$ 335	$ 183	$ 152
Indian Affairs and Northern Development	5	17,296	865	16,431
National Defence	3	651	602	49
National Revenue—				
Customs and Excise Division	19	4,956	10	4,946
Secretary of State—				
Centennial Commission	1	3,144	140	3,004
	29	$ 26,382	$ 1,800	$ 24,582

Of the net loss of $24,582, amounts totalling $16,860 have been charged to the Public Officers Guarantee Account subsequent to the year-end and the remainder are to be charged thereto at the request of the departments concerned.

Losses from defalcations in the Post Office Department in 1966-67 numbered 110 amounting to $71,609. Of these, 66 totalling $25,943 were recovered in full while partial recoveries on the other losses amounted to $18,740. These losses are chargeable to the Post Office Guarantee Fund.

Also noted in the audit were 20 other losses totalling $12,399 which are required to be reported although they do not fall within the category of losses due to defalcations or other fraudulent acts of a public officer and therefore are not chargeable to the Public

Officers Guarantee Account. Recoveries of $5,783 during the year reduced the net loss to $6,616. The following is a summary by departments of these losses:

Department	Number	Initial loss	Recoveries	Net loss
Agriculture	1	$ 1,298	$ 157	$ 1,141
Indian Affairs and Northern Development	1	1,678	1,678	
Labour	1	11		11
Manpower and Immigration	2	259		259
National Defence	4	2,395	2,255	140
National Revenue—Taxation Division	1	200		200
Post Office	2	3,557		3,557
Public Works	2	2,733	1,683	1,050
Royal Canadian Mounted Police	6	268	10	258
	20	$ 12,399	$ 5,783	$ 6,616

169. *Non-productive payments.* Since 1961 there have been included in the Auditor General's annual Report to Parliament at the request of the Public Accounts Committee details of the non-productive payments which came to our notice in the course of the audit. Because of the concern of the Committee with the increasing number of non-productive payments, we have again sought to pinpoint the underlying reasons for this type of cost, particularly when the circumstances leading to the non-productive payment appear to have been beyond the control of the department or agency against whose appropriation it was charged.

It is important to remember that many of the 42 non-productive payments mentioned in this Report relate to prior years' transactions although the payments were not made until 1966-67. The total cost this year is estimated at $8.301,000. Of these cases, 25 are referred to in the foregoing paragraphs while the remaining 17 cases are as follows:

1. COST OF UNUSED HOTEL ACCOMMODATION.—Early in 1967, because of an anticipated shortage of hotel accommodation in the City of Montreal, the Canadian Broadcasting Corporation entered into contracts with three hotels to ensure accommodation for its personnel travelling to Montreal on business. Up to June 20, 1967 this accommodation had remained unoccupied 24%, 46% and 66% of the time. The contract with the hotel having an unoccupied rate of 46% was terminated on May 31, 1967 and a termination charge of $18,900, equal to one month's rent, was paid. The cost of the unoccupied accommodation for the period January 1 to June 20, 1967 amounted to $104,000 of which approximately $37,500 pertains to the period January 1 to March 31, 1967.

2. ADDITIONAL COST DUE TO DELAY IN MOVEMENT OF SHIP, WHITEHOUSE, N.T.—In February 1966 the Department of Indian Affairs and Northern Development entered into a contract at a price of $49,200 for the removal of the beached sternwheeler "Klondike" at Whitehorse to a location where it would become an established National Historic Site and the focal point for a local park development.

   Shortly after the contract had been awarded a number of local residents made known their opposition to the plan, and two months elapsed before the contractor was instructed to proceed. Since the frost had by then receded, it was necessary to revise

procedures for the move as the work had to be carried out on soft ground. The financial consequence of the delay was an additional payment of $7,828 to the contractor primarily to cover the construction of additional skids and platforms so that damage to streets would be minimized.

3. ADDITIONAL COSTS ARISING FROM PAINTING DEFECTS.—In the course of the audit the following three cases were noted where painting failures resulted in additional costs:

(a) On July 6, 1965 a contract was awarded for the exterior painting of 205 living quarters at Canadian Forces Base Rivers, in Manitoba, at a firm price of $46,000, the work to be completed by October 4, 1965. On September 9, 1965, when 75 quarters had been painted completely and 122 had been primed, the contractor was instructed to stop applying the finishing paint as it had begun to peel. Investigation revealed that the latex-base finishing coat would not adhere to the oil-base primer unless the two were applied within a few days of each other. The Crown, the contractor and the paint manufacturer were not aware of this characteristic of the particular brand of primer chosen by the contractor. The contract required the use of types of primer and finish paint identified by Canadian Government Specifications Board number and specifically mentioned that the brand used would meet these specifications. It was agreed that the contractor had acted in good faith and accordingly the Department of National Defence used its own personnel to remedy the results of peeling at a cost of $6,800.

In June 1966 the Treasury Board approved an amendment to the contract providing for the use of an oil-base finishing paint on the remaining 130 units. The contractor received an additional $3,500 for materials and $3,400 for increased labour costs and turned over to the Department the remaining latex-base paint valued at $3,000.

As a result of this paint defect, costs to the Crown were increased by $10,700. We are informed that beginning in 1966 specifications for this type of contract were changed to prevent the recurrence of this problem.

(b) In June 1964 a firm price contract amounting to $9,769 was awarded for the exterior painting of 13 steelox duplexes and a chapel at Canadian Forces Base Moisie, in Quebec, the work to be completed by August 20, 1964.

The contractor tried unsuccessfully to produce an acceptable finish in the summers of 1964, 1965 and 1966. In January 1967 the contract was cancelled and, as the contractor had used the paint specified and applied it in the manner suggested by the Crown, he was paid $7,303 in final settlement of his claim comprising labour and material used $3,610, paint turned over to the Department $1,910, an amount of $1,380 in respect of work stoppage and $403 for cancellation charges. We have been unable to determine what percentage of the painting was satisfactorily completed.

(c) In June 1965 a contract was awarded for the exterior painting of 160 living quarters at Canadian Forces Base Gimli, in Manitoba, at a firm price of $38,976, the work to be completed in October 1965. However, in September the contractor was instructed to wait until problems relating to the paint specification were resolved.

In September 1966, after the painting of 124 of the 160 units had been accepted by the Crown, the Department of National Defence requested termination of the contract because a protective coating on the steel panelling was causing the paint to peel. Under the circumstances the contractor was relieved of any further responsibility. In January 1967 he was paid a cancellation charge of $1,500 bringing the total cost of painting 124 units to $35,983.

4. WAGES PAID FOR WORK NOT PERFORMED AT PORT COLBORNE, ONT., AND PRESCOTT, ONT.—As mentioned in previous Reports, the National Harbours Board is required, under collective bargaining agreements between the Board and the labour unions at Port Colborne and Prescott, to pay workers for "dip-time", the initial stage of unloading a grain vessel when only mechanical devices are used. This period may last up to three hours, depending on the size of the vessel, before the services of riggers, rope pullers, scoopers and hold foremen are required. Payments for this time total an estimated $20,000 annually.

5. CONSULTANTS' FEES IN RESPECT OF ABANDONED WORK, FROBISHER BAY, N.W.T.—In our 1964 Report (Appendix 2, item 23) a detailed explanation was given of the circumstances underlying payments totalling $194,982 to consultants for the preparation of plans and specifications for the second phase of a development program at Frobisher Bay, which was abandoned.

In 1966 final settlement was made with the consultants for their fees and expenses in connection with both phases of the planned program. Analysis of the adjustments and additional payments made since the matter was last reported indicates that a further $18,210 is attributable to phase two and consequently must also be regarded as non-productive.

6. ADDITIONAL COST RESULTING FROM CONSTRUCTION DELAYS, KITCHENER, ONT.—The Department of Public Works awarded a contract in October 1962 for the construction of a postal terminal building at Kitchener. The original contract price was $545,000 and the undertaking was completed in 1964 at a cost of $614,546.

The final cost includes $17,745 in respect of a 1966 settlement of the contractor's claim for additional costs arising from a 2¼ month delay to which his work had been subjected. A portion of the claim arose from changes authorized by the consultants in the reinforcing steel in the concrete walls of the stair wells while the concrete frame of the building and the floors were being constructed. A second factor was the necessity of preparing revised drawings for the elevation of the exterior walls of the second floor.

The Department decided that the work of the consultant architects was open to criticism and they were assessed $1,500 for failure to perform their function in a competent manner.

7. ADDITIONAL COST DUE TO CONSTRUCTION DELAY, OTTAWA.—In 1962 the Department of Public Works awarded a contract in the amount of $1,494,000 for the construction of a building for the Radiation Protection Division of the Department of National Health and Welfare at Ottawa. The building was accepted in February 1964 at a cost to that point of $1,612,801.

During the current year two payments amounting to $13,307 were made following lengthy negotiations, bringing the final cost to $1,626,108. One of the payments, in the amount of $11,014, was compensation for additional job overhead costs of the general contractor and his mechanical subcontractor arising from a delay of seven weeks during construction. Because of the complexity of the mechanical and laboratory installations required for the specialized laboratory, the necessity for a number of changes was not apparent until the work was virtually completed, and the initiation of change orders caused the delay.

8. COST OF UNUSED PLANS, TORONTO, ONT.—Reference was made in last year's Report (paragraph 147, item 13) to a payment of $11,540 to the contractor who built the Sir William Mulock Building in Toronto to compensate him for extra costs resulting from delays in

his planned schedule. The delays resulted because the partition lay-out requirements could not be definitely established until effect had been given to organizational changes of the Unemployment Insurance Commission.

During the year the consulting architects for the same building were paid $10,343 in addition to their regular fee to compensate them for preparing floor lay-outs three times during a period of six months while accommodation requirements were changing constantly, and for plans for library facilities which were not used.

9. COST OF UNUSED POST OFFICE SPACE, EDMONTON, ALTA.—Pending the completion of alterations and an addition to the Edmonton postal terminal, the Department of Public Works leased space for postal purposes in a privately-owned building at a total rental of $11,276 per annum. The expiry date of the lease initially entered into in 1964 was August 31, 1967, the target date for reoccupancy of the postal terminal. However, the alterations and addition were substantially completed much ahead of schedule and it was possible to vacate the leased premises on August 6, 1966.

As efforts by the Department of Public Works to sublet the accommodation were unsuccessful and there was no foreseeable requirement for the space by the Crown before the lease would expire, negotiations were entered into with the lessor which resulted in a settlement of $7,500 for termination of the lease, effective October 1, 1966. This amount, together with the rent of $1,697 paid with respect to the period August 7-September 30, 1966 brought the total paid for the unused space to $9,197.

10. ADDITIONAL COST DUE TO CONSTRUCTION DELAY, WESTON, ONT.—In 1962 the Department of Public Works entered into a contract for the construction of a federal building at Weston. The original contract price was $411,500 and construction was completed in the following year at a cost of $422,148.

In 1963 the contractor submitted a claim for additional costs incurred due to delays which he maintained had been beyond his control. Following lengthy negotiations a settlement of $8,650, based on a delay period of eleven weeks, was made in 1966. The contributing circumstances were (a) a change from caissons to piling along one side of the property, and additional test drilling for footings (six weeks), (b) problems in installing the storm sewer connection because of a discrepancy in the drawings and the encountering of a telephone conduit (two weeks), and (c) time required to determine acoustic tile requirements and the telephone needs of the Unemployment Insurance Commission (three weeks).

In this case, after allowing for the delay of eleven weeks referred to above, the contractor was assessed $4,368 in respect of costs incurred by the Department during a further period of ten weeks which elapsed when he failed to meet the adjusted completion date.

11. CONSULTANTS' FEE IN RESPECT OF REVISION OF PLANS, ST. LAMBERT, QUE.—In 1963 the Department of Public Works commissioned a firm of architects to prepare plans and specifications and to supervise the construction of a post office at St. Lambert.

The preliminary estimate of the cost of construction was $180,000. When the working drawings became available in late 1964, at which point the project might have proceeded to tender call, the architects' cost estimate had risen to $225,000 and the Department's to $260,000. The consultants were requested to revise the drawings in accordance with a layout provided by the Department, with a view to reducing the cost and to meet certain objections of the Post Office Department.

The architects received $13,245 as regular fee, based on an actual construction cost of $240,814. During the year a further $8,414 was paid in respect of the revisions.

12. COST OF UNUSED POST OFFICE SPACE, CHATEAUGUAY, QUE.—In 1965 the Department of Public Works entered into a renewal lease for one year commencing August 1, 1965 at a rental of $7,526 per annum, to provide continued postal accommodation at Chateauguay. Although the Department had awarded a contract for the construction of a post office building at Chateauguay in March 1965 and estimated that this building could be occupied several months prior to July 31, 1966, efforts to arrange for a term to coincide with the completion of construction were unsuccessful.

The rented premises were vacated on February 26, 1966. When efforts to obtain a quit-lease on satisfactory terms or to sub-lease the premises were not successful, rent was paid for the vacated space for over five months until the lease expired on July 31, 1966. A non-productive cost of $3,181 resulted.

13. COST OF UNUSED PLANS, MONTREAL, QUE.—In 1965 the Department of Public Works engaged a firm of architects to design, prepare working drawings and specifications for, and subsequently supervise construction of an office building at Montreal to accommodate the Distribution Branch of the National Film Board.

In May 1966, by which time they had completed 35% of the preliminary drawings, the architects were instructed to cease work pending a decision as to whether a larger building was required. Ultimately it was concluded that the planning should be for a structure providing twice as much space as earlier contemplated. As it was apparent that the preliminary work performed by the architects would be of little or no value in relation to the revised concept, they were paid $2,745 to compensate them for the preparation of the abandoned drawings.

14. COST OF UNUSED SPACE, FORT CHAMBLY AND RICHELIEU VILLAGE, QUE.—In June 1965 the Post Office Department informed the Department of Public Works that the introduction of letter carrier delivery service at Chambly, Fort Chambly and Richelieu Village had been recommended to the Treasury Board, and that this would mean that the leased post office premises in the latter two communities would not be required beyond a date which was later established as October 17, 1965.

The Richelieu lease had been renewed in 1963 for a period of five years, following receipt of assurances from postal officials that the term would not conflict with the prospective date for establishment of letter carrier service. To cancel the lease the lessor required full payment of rent at the rate of $166 per month until May 31, 1966, plus $1,000, the equivalent of six months' rent, in lieu of the $3,666 which the lease would have earned to the expiry date of March 31, 1968.

The lease for the Fort Chambly accommodation had been renewed for the period December 1, 1964 to April 30, 1966, the lessor having been unwilling to consider a shorter term. Early termination was agreed to, based on acceptance of $435 representing three months' rent in lieu of the amount of $870 which would have been payable from November 1, 1965 to the original expiry date.

A non-productive cost of $2,742 resulted from the rental and quit-lease payments made in respect of the premises after they were vacated.

15. ADDITIONAL COST DUE TO CONSTRUCTION DELAY, MONCTON, N.B.—In October 1964 the Department of Transport entered into a contract for additions and alterations to the air terminal building at the Moncton Airport at a price of $1,073,550. The work was completed during the current year at a cost of $1,183,279.

In June 1966 the contractor submitted a claim for the recovery of extra costs for supervision and overhead attributable to delays which he regarded as beyond his control. Consideration of the claim by the Department resulted in a payment of $7,100 in recognition of costs during a two-month period in which construction was held up by unpredictable changes required in renovating the existing portion of the air terminal building.

Summary of Assets and Liabilities

170. The Statement of Assets and Liabilities as at March 31, 1967, with comparative igures as at the end of the preceding year, prepared by the Department of Finance for nclusion in the Public Accounts and certified by the Auditor General in accordance with ection 64 of the Financial Administration Act, is reproduced as Exhibit 2 to this Report.

Assets

171. The following table lists the assets at March 31, 1967, by main headings in the tatement of Assets and Liabilities, in comparison with the corresponding balances at ne close of the two previous years:

	March 31, 1967	March 31, 1966	March 31, 1965
Current assets	$ 1,393,966,000	$ 1,015,994,000	$ 1,075,383,000
Blocked currency	2,136,000	1,002,000	—
Advances to the Exchange Fund Account	2,355,000,000	2,696,000,000	2,621,000,000
Investments in United States dollar securities issued by other than the Government of Canada	180,029,000	187,192,000	219,479,000
Investment held for retirement of unmatured debt	3,152,000	—	—
Canada Pension Plan Investment Fund	615,521,000	34,853,000	—
Loans to, and investments in, Crown corporations	6,728,665,000	5,659,074,000	4,996,301,000
Loans to national governments	1,201,581,000	1,225,213,000	1,206,577,000
Other loans and investments	1,713,998,000	1,263,213,000	1,140,128,000
Securities held in trust	50,853,000	51,956,000	43,586,000
Deferred charges	581,846,000	256,555,000	208,585,000
Inactive loans and investments	94,824,000	94,824,000	94,824,000
Total recorded assets	14,921,571,000	12,485,876,000	11,605,863,000
Less—Reserve for losses on realization of assets	546,384,000	546,384,000	546,384,000
Net recorded assets	$ 14,375,187,000	$ 11,939,492,000	$ 11,059,479,000

172. *Current assets.* The balances included under this heading at March 31, 1967, th the comparable balances at the close of the two previous years, were:

	March 31, 1967	March 31, 1966	March 31, 1965
Cash	$ 1,009,249,000	$ 759,080,000	$ 850,282,000
Departmental working capital advances—			
Stockpiling of uranium concentrates	57,163,000	37,070,000	24,414,000
Defence Production Revolving Fund	34,018,000	22,590,000	30,157,000
Miscellaneous departmental accountable, imprest and standing advances	23,226,000	21,124,000	18.641.000

	March 31, 1967	March 31, 1966	March 31, 1965
Bullion and coinage accounts.........$	18,048,000	$ 14,794,000	$ 18,704,000
Transport stores account............	10,136,000	8,928,000	7,908,000
Agricultural Commodities Stabilization Account........................	2,031,000	5,426,000	23,152,000
Agricultural Products Board Account..	1,741,000	10,000	—
Other..........................	11,432,000	10,635,000	10,429,000
	157,795,000	*120,577,000*	*133,405,000*
Securities held for the Securities Investment Account......................	197,689,000	81,476,000	62,561,000
Other current assets..................	29,233,000	54,861,000	29,135,000
	$ 1,393,966,000	$ 1,015,994,000	$ 1,075,383,000

The amount of $57,163,000 for stockpiling of uranium concentrates comprises accumulated costs of the acquisition, refining and stockpiling of these concentrates.

The Defence Production Revolving Fund, established under the authority of section 16 of the Defence Production Act, R.S., c.62, provides funds to finance the cost of stocks of defence supplies and essential materials and to provide working capital loans and advances to manufacturers of such supplies and materials. The Fund balance increased from $22,590,000 at March 31, 1966 to $34,018,000 at March 31, 1967, largely because of increases in recoverable expenditures of $8,680,000 on defence industry modernization projects and the transfer of the accumulated surplus of $2,286,000 to non-tax revenues.

The $197,689,000 balance of the Securities Investment Account represents, at amortized cost, temporary holdings of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act.

173. *Blocked currency.* The amount of $2,136,000, on deposit in the Central Bank of Chile, was received in payments on loans made by Export Credits Insurance Corporation to companies in Chile. The Government of Chile was unable to make available the necessary Canadian dollars for payment of the debt in Canada but has agreed to the withdrawal of funds deposited in 1965 in ten equal instalments on April 1 and October 1 in the years 1968 to 1972, and to similar withdrawals in the years 1969 to 1973 of funds deposited in 1966. Interest at 6% per annum is payable by the Central Bank of Chile on these deposits.

174. *Advances to the Exchange Fund Account.* This Account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the Minister from time to time within the maximum ($3,500,000,000 at March 31, 1967) authorized by the Governor in Council under section 23 of the Currency, Mint and Exchange Fund Act, R.S., c.315. The balance of the Account at March 31, 1967 was $2,355,000,000 and the market value of investments from advances was $2,385,335,000, indicating an unrecorded surplus of $30,335,000. By comparison, the unrecorded surplus at the close of the preceding year was $32,743,000.

A summary of the transactions in the Account for the year ended December 31, 1966 is included in paragraph 273 of this Report.

175. *Investments in United States dollar securities issued by other than the Government of Canada.* The major part of these holdings consists of $154.9 million of special United States of America securities acquired under authority of Order in Council P.C. 1964-1427 of September 10, 1964, pursuant to Vote L17a, Appropriation Act No. 7, 1964, *1964-65, c.20,* which provided for their purchase out of United States dollars paid to Canada pursuant to the Treaty between Canada and the United States of America relating to co-operative development of the water resources of the Columbia River Basin. Securities amounting to $30 million (U.S.) matured in November 1966 and were redeemed by the Government of the United States.

The balance represents securities of the International Bank for Reconstruction and Development, totalling $25,125,000 and maturing in 1968 and 1969, which were purchased during 1966-67 pursuant to Vote L32b of Appropriation Act No. 9, 1966, *1966-67, c.55:*

> To provide in the current and subsequent fiscal years for the purchase, acquisition, holding and disposition by the Minister of Finance of securities issued by the International Bank for Reconstruction and Development, the total cost of such securities that may be held by the Minister at any one time not to exceed—$150,000,000.

176. *Investment held for retirement of unmatured debt.* This investment of 3,152,000 consists of Canada bonds of the 1962-80, 5½% issue, with a face value of 3,300,000, which were purchased during the year in accordance with the terms of issue.

177. *Canada Pension Plan Investment Fund.* Funds of the Canada Pension Plan in excess of an amount estimated as required to meet all payments in the following three months are available for investment in 20-year non-negotiable provincial and federal securities at the current interest rate. Investments at March 31, 1967, with the comparable balances at March 31, 1966, were:

	March 31, 1967	March 31, 1966
Ontario	$ 352,697,000	$ 20,110,000
British Columbia	89,484,000	5,085,000
Alberta	54,135,000	3,064,000
Manitoba	37,016,000	2,077,000
Saskatchewan	25,894,000	1,432,000
Nova Scotia	22,663,000	1,248,000
New Brunswick	17,679,000	972,000
Newfoundland	11,693,000	655,000
Prince Edward Island	1,998,000	108,000
Quebec	368,000	—
Canada	1,894,000	102,000
	$ 615,521,000	$ 34,853,000

178. *Loans to, and investments in, Crown corporations.* The following schedule shows the nature of these loans and investments at March 31, 1967:

	Capital stock at cost	Loans and advances	Total
Central Mortgage and Housing Corporation	$	$ 2,941,547,000	$ 2,941,547,000
Canadian National Railways	1,075,236,000	542,698,000	1,617,934,000
Farm Credit Corporation		752,492,000	752,492,000
The St. Lawrence Seaway Authority		465,718,000	465,718,000
National Harbours Board		222,297,000	222,297,000
Export Credits Insurance Corporation	5,000,000	159,413,000	164,413,000
Atomic Energy of Canada Limited	15,000,000	90,957,000	105,957,000
Canadian Overseas Telecommunication Corporation		49,774,000	49,774,000
National Capital Commission, other than Greenbelt—see also below		37,070,000	37,070,000
Northern Canada Power Commission		30,707,000	30,707,000
Polymer Corporation Limited	30,000,000		30,000,000
Canadian Commercial Corporation		10,000,000	10,000,000
Canadian Broadcasting Corporation—working capital—see also below		9,000,000	9,000,000
Eldorado Mining and Refining Limited	8,247,000		8,247,000
Bank of Canada	5,920,000		5,920,000
Canadian Arsenals Limited		5,000,000	5,000,000
Canadian National Railways—re acquisition and repair of passenger equipment		3,300,000	3,300,000
Canadian National Railways—re Yarmouth—Bar Harbour ferry		666,000	666,000
Canadian National (West Indies) Steamships, Limited	1,000	324,000	325,000
Canadian Patents and Development Limited	296,000		296,000
Canadian Dairy Commission		71,000	71,000
	1,139,700,000	*5,321,034,000*	*6,460,734,000*
Recovery likely to require parliamentary appropriations—			
Canadian Corporation for the 1967 World Exhibition		175,000,000	175,000,000
Canadian Broadcasting Corporation		55,715,000	55,715,000
National Capital Commission—Greenbelt		37,216,000	37,216,000
		267,931,000	*267,931,000*
	$ 1,139,700,000	$ 5,588,965,000	$ 6,728,665,000

The total of $6,728,665,000, an increase of $1,069,591,000 over the previous year, does not represent the total equity of Canada in its Crown corporations at March 31, 1967. This equity in fact amounted to $8,238,437,000 as shown by their individual financial statements published in Volume III of the Public Accounts and as summarized in Appendix 12 on page 9.25 of Volume I of the Public Accounts. The principal reason for

this is that the accounts of Canada are maintained on a modified cash basis which does not provide for recording as assets such items as surpluses of Crown corporations or the cost of certain capital assets which have been charged to expenditure. In no sense does the Statement of Assets and Liabilities of the Government of Canada purport to be a consolidation including the accounts of its wholly-owned corporations. The corporations maintain their individual accounts on the accrual accounting basis followed in commercial practice and a number have fiscal years conforming to the cycle of their individual operations rather than the April 1 to March 31 fiscal year.

Advances to Central Mortgage and Housing Corporation, made pursuant to section 22(1) of the Central Mortgage and Housing Corporation Act, R.S., c.46, increased by $489 million resulting from additional advances of: $499 million for loans to approved borrowers, less repayments of $87 million; $99 million less repayments of $25 million in respect of projects entered into with provinces, municipalities and universities; and $2.3 million for the purpose of making loans to holders of National Housing Act insured mortgages.

The total for the Canadian National Railways increased by $127 million due to: a further investment of $31 million in 4% preferred stock of the Company pursuant to section 12 of the Canadian National Railways Financing and Guarantee Act, 1964, *1964-65, c.41;* an increase of $50 million in advances under section 7 of the Canadian National Railways Refunding Act, 1955, *1955, c.31;* an increase of $40 million in advances for capital purposes under the Canadian National Railways Financing and Guarantee Act, 1965-66, *1966-67, c.67;* an increase of $3.3 million in loans under the authority of Votes L81a and L81g, Appropriation Acts No. 9, 1966, *1966-67, c.55,* and No. 2, 1967, *1966-67, c.85,* in respect of passenger equipment; and an increase of $3.1 million in temporary loans required by Air Canada.

The amount for Farm Credit Corporation increased by $164 million over the preceding year due largely to further loans of $182 million, less repayments of $25 million under the Farm Credit Act, 1959, c.43, and $6.1 million paid to the Corporation under section ? of the Act as additional capital.

The amount shown for The St. Lawrence Seaway Authority increased by $30 million including a net increase of $2.6 million in deferred interest on loans and additional loans totalling $27 million, of which loans of $8.5 million are in respect of the Welland Canal and are interest-free.

The amount shown for Export Credits Insurance Corporation reflects an increase of ?6 million in advances to enable the Corporation to provide long-term financing of export sales of capital goods and services.

There was an increase of $28 million in advances to Atomic Energy of Canada Limited for the construction of: the Douglas Point generating station, $18 million; Pickering generating station, $6 million; Gentilly nuclear power station, $2.5 million; Nelson River power project, $1 million; and Sheridan Park engineering office, $.5 million.

Loans to the National Capital Commission for the purpose of acquiring property in the National Capital Region other than in the Greenbelt increased by $5 million.

Additional advances of $6 million for working capital were made to the Canadian Broadcasting Corporation under the authority of Vote L12c, Appropriation Act No. 9, 1966, *1966-67, c.55*.

Additional loans to the Canadian Corporation for the 1967 World Exhibition amounting to $131 million were authorized by Votes L30 and L30e, Appropriation Acts No. 9, 1966, *1966-67, c.55,* and No. 1, 1967, *1966-67, c.73*. The total of the loans advanced to March 31, 1967 is $175 million. Repayment of the loans will involve parliamentary appropriations in future years.

The financing of the capital requirements of the Canadian Broadcasting Corporation continued to be by means of loans. Additional loans, under the authority of Vote L10, Appropriation Act No. 9, 1966, *1966-67, c.55,* totalled $29 million (net) and are to be repaid by equal annual instalments over a twenty-year period from parliamentary appropriations provided for the Corporation.

Loans to the National Capital Commission for the purpose of acquiring property in the Greenbelt increased by $2 million. Repayment of these loans may be dependent on parliamentary appropriations in future years.

179. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1967 in comparison with the balances at the close of the two previous years:

	March 31, 1967	March 31, 1966	March 31, 1965
United Kingdom	$ 1,059,231,000	$ 1,078,088,000	$ 1,058,863,000
France	67,600,000	67,600,000	67,600,000
Netherlands	32,130,000	32,130,000	32,130,000
Belgium	23,070,000	25,377,000	27,684,000
India—for the purchase of wheat and flour	—	9,722,000	10,688,000
India	3,969,000	6,366,000	8,638,000
Other countries	15,581,000	5,930,000	974,000
	$ 1,201,581,000	$ 1,225,213,000	$ 1,206,577,000

The decrease in indebtedness of the United Kingdom, Belgium and India resulted from payments of the annual instalments of principal. No payments were due from France and the Netherlands during the year because of special payments made in 1962-63.

Canada, under the authority of Department of External Affairs Vote 36a, Appropriation Act No. 9, 1966, *1966-67, c.55,* forgave the outstanding principal and accrued interest on the loan to India for the purchase of wheat and flour.

The item "Other countries" includes special assistance loans to seven developing countries totalling $15,054,000, an increase of $9,798,000 over the previous year. These loans include $11,710,000 repayable over 40 years, following a grace period of 10 years from the date of execution of each agreement, and bear interest at ¾ of 1% per annum on the amount of the loan committed less any repayments.

180. *Other loans and investments.* The balances comprising this asset at March 31, 1967, with comparable balances at the end of the two previous years, were:

	March 31, 1967	March 31, 1966	March 31, 1965
Subscriptions to capital of, and working capital advances and loans to, international organizations................$	952,188,000	$ 724,695,000	$ 709,754,000
Veterans' Land Act Fund..............	333,857,000	278,842,000	256,408,000
Less—Reserve for conditional benefits..	22,449,000	22,651,000	24,339,000
	311,408,000	*256,191,000*	*232,069,000*
Municipal Development and Loan Board advances..........................	236,331,000	115,491,000	9,474,000
Less—Reserve for forgiveness of indebtedness......................	5,097,000	6,633,000	1,837,000
	231,234,000	*108,858,000*	*7,637,000*
Loans to provincial governments........	123,515,000	96,723,000	98,436,000
Housing projects for the Canadian Forces	20,497,000	20,560,000	20,386,000
Loans to manufacturers of automotive products in Canada..................	12,627,000	125,000	—
Assisted passage scheme................	11,096,000	6,387,000	3,681,000
Government of the Yukon Territory.....	9,073,000	8,540,000	6,855,000
Government of the Northwest Territories	8,876,000	6,418,000	3,885,000
Government equity in agency account of Crown Assets Disposal Corporation....	7,298,000	5,004,000	5,522,000
Temporary loans to Old Age Security Fund.............................	—	—	24,954,000
Other balances......................	22,090,000	25,504,000	23,103,000
	1,709,902,000	1,259,005,000	1,136,282,000
Recovery likely to require parliamentary appropriations— Capital assistance loans, Town of Oromocto, New Brunswick.......	4,096,000	4,208,000	3,846,000
	$ 1,713,998,000	$ 1,263,213,000	$ 1,140,128,000

The following is a listing of Canada's subscriptions to capital of, and working capital advances and loans to, international organizations at March 31, 1967, in comparison with the amounts at the close of the two previous years:

	March 31, 1967	March 31, 1966	March 31, 1965
Subscriptions to capital—			
International Monetary Fund...............$	782,655,000	$ 577,250,000	$ 577,250,000
International Bank for Reconstruction and Development..........................	85,024,000	80,483,000	80,483,000
International Development Association.....	70,722,000	55,695,000	40,668,000
International Finance Corporation..........	3,522,000	3,522,000	3,522,000
Asian Development Bank..................	2,703,000	—	—
	944,626,000	716,950,000	701,923,000
Working capital advances and loans...........	7,562,000	7,745,000	7,831,000
	$ 952,188,000	$ 724,695,000	$ 709,754,000

During the year Canada increased its subscription to the capital of three international organizations: International Monetary Fund, $205 million; International Development Association, $15 million; and International Bank for Reconstruction and Development, $4.5 million. Canada also subscribed $2.7 million for the purchase of 250 shares in the Asian Development Bank representing 10% of a commitment to the Bank authorized by Appropriation Act No. 9, 1966, *1966-67, c.55*, which includes:

> Vote L23b—To authorize in the current and subsequent fiscal years the purchase of 2,500 shares of stock of the Asian Development Bank, being Canada's subscription as a member thereof, for the amount of $25,000,000 U.S., including authority in the current and subsequent fiscal years for the issue to the Bank, on behalf of the Government of Canada, as payment for the shares so purchased, pending cash requirements by the Bank, non-interest bearing non-negotiable demand notes in such form as may be determined by the Minister of Finance, notwithstanding that the payment may exceed or fall short of the equivalent in Canadian dollars, estimated as of June, 1966, which is—$27,027,000.

The increase of $55,217,000 in the Veterans' Land Act Fund was mainly due to additional advances of $75,937,000 for the purchase of property, less repayments of $24,867,000.

The Municipal Development and Loan Board advances were made pursuant to the Municipal Development and Loan Act, 1963, c.13, to provide financial assistance to augment or accelerate municipal capital works programs. The Act provided for the forgiveness of 25% of the principal amount of a loan where the municipal project in respect of which the loan was extended was completed to the satisfaction of the Municipal Development and Loan Board on or before September 30, 1966, and 25% of the cost of the work performed to that date where the project was not completed until a later date. At March 31, 1967 advances with respect to projects not completed amounted to $20,388,000 and accordingly a reserve of 25% or $5,097,000 was established to cover the portion of the advances to be forgiven.

The loans to provincial governments at March 31, 1967, with the comparable balances at the end of the two previous years, were:

	March 31, 1967	March 31, 1966	March 31, 1965
New Brunswick	$ 31,782,000	$ 29,048,000	$ 32,788,000
Saskatchewan	26,386,000	29,995,000	28,461,000
Nova Scotia	22,394,000	7,043,000	7,139,000
Newfoundland	17,725,000	3,525,000	493,000
British Columbia	10,343,000	11,239,000	12,537,000
Manitoba	9,461,000	10,002,000	10,708,000
Alberta	5,424,000	5,871,000	6,310,000
	$ 123,515,000	$ 96,723,000	$ 98,436,000

181. *Securities held in trust.* The amount of $50,853,000 at March 31, 1967 represents securities held for the following accounts: guarantee deposits in respect of oil and gas permits, $32,287,000; guarantee deposits in respect of customs duties and excise taxes, $5,241,000; Canadian vessel construction assistance, $3,967,000; pilots' pension funds, $3,328,000; contractors' securities, $2,833,000; and other, $3,197,000.

182. *Deferred charges.* The balances included under this heading at March 31, 1967, vith the comparable balances at the close of the two previous years, were:

	March 31, 1967	March 31, 1966	March 31, 1965
Unamortized portion of actuarial deficiencies—			
Public Service Superannuation Account	$ 189,453,000	$ 93,621,000	$ 39,921,000
Canadian Forces Superannuation Account	260,223,000	53,601,000	53,762,000
Royal Canadian Mounted Police Superannuation Account	10,957,000	3,115,000	4,153,000
	460,633,000	150,337,000	97,836,000
Unamortized loan flotation costs	121,213,000	106,218,000	110,749,000
	$ 581,846,000	$ 256,555,000	$ 208,585,000

The item "Unamortized portion of actuarial deficiencies", $460,633,000 at March 1, 1967, increased by $310 million over the previous year because of charges of $442 nillion resulting from salary revisions, offset by credits of $132 million for amortization f deficiencies. The relative statutes provide that the amounts of special credits to the uperannuation accounts (set up as "Deferred charges—Unamortized portion of actuarial eficiencies") shall be charged to the Consolidated Revenue Fund in five equal annual nstalments.

The item "Unamortized loan flotation costs" records the unamortized portion of dis-ounts and commissions paid on the issuance of loans. The following is a summary of the ransactions for the year:

Balance, April 1, 1966	$ 106,218,000
Add:	
Discount and commissions on new loans	60,858,000
Discount and commissions on additional issues of existing loans	446,000
	167,522,000
Deduct:	
Amortization charges included in 1966–67 expenditure	46,309,000
Balance, March 31, 1967	$ 121,213,000

183. *Inactive loans and investments.* The $94,824,000 shown for this item, which has een unchanged for many years, comprised the following balances:

Loan to China in 1946, under the Export Credits Insurance Act	$ 49,426,000
Loans to Roumania in 1919 for the purchase of goods produced in Canada	24,329,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company Limited (carrying prior guarantee by the Government of China)	14,470,000
Loans to Greece in 1919 for the purchase of goods produced in Canada	6,525,000
Loan to Province of Saskatchewan in 1908 for the purchase of seed grain (last payment received in 1959–60)	74,000
	$ 94,824,000

Liabilities

184. The following table lists the liabilities at March 31, 1967, by main headings in the Statement of Assets and Liabilities, in comparison with the balances at the close of the two previous years:

	March 31, 1967	March 31, 1966	March 31, 1965
Current and demand liabilities	$ 1,670,978,000	$ 1,398,836,000	$ 1,432,616,000
Deposit and trust accounts	347,314,000	310,729,000	262,837,000
Annuity, insurance and pension accounts	7,915,132,000	6,392,133,000	5,675,841,000
Undisbursed balances of appropriations to special accounts	76,573,000	101,945,000	95,703,000
Refundable corporation tax	196,157,000	—	—
Deferred credits	142,828,000	138,119,000	113,208,000
Suspense accounts	50,949,000	31,391,000	5,532,000
Unmatured debt	19,940,206,000	19,109,787,000	18,978,214,000
	$ 30,340,137,000	$ 27,482,940,000	$ 26,563,951,000

185. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1967, in comparison with the balances at the close of the two previous years, were:

	March 31, 1967	March 31, 1966	March 31, 1965
Accounts payable	$ 454,510,000	$ 380,309,000	$ 363,925,000
Outstanding treasury cheques	382,625,000	332,860,000	315,077,000
Non-interest-bearing notes payable to the International Monetary Fund and other international organizations	366,378,000	255,388,000	367,898,000
Interest accrued	286,250,000	254,292,000	231,173,000
Interest due	111,272,000	110,931,000	102,034,000
Matured debt	30,670,000	27,325,000	19,141,000
Other	39,273,000	37,731,000	33,368,000
	$ 1,670,978,000	$ 1,398,836,000	$ 1,432,616,000

The amounts shown for "Accounts payable" are the totals of charges pertaining to the year for which cheques were issued in April of the following fiscal year.

Non-interest-bearing notes payable to the International Monetary Fund, $339 million, the International Development Association, $26 million, and the Asian Development Bank, $1.4 million, are those portions of Canada's quotas of the capital of these international agencies which are not covered by cash or gold.

186. *Deposit and trust accounts.* The following is a listing of the balances included ı this item at March 31, 1967 in comparison with the balances at the close of the two revious years:

	March 31, 1967	March 31, 1966	March 31, 1965
Provincial tax collection agreements	$ 92,532,000	$ 66,320,000	$ 48,797,000
Guarantee deposits	41,214,000	39,800,000	34,913,000
Indian trust funds	33,721,000	32,051,000	31,109,000
Deposits by Crown corporations	29,415,000	30,416,000	27,473,000
Post Office Savings Bank	20,756,000	22,024,000	23,255,000
National Harbours Board	17,225,000	21,627,000	13,560,000
Instalment purchase of bonds by public service employees	16,336,000	13,568,000	13,257,000
Canadian Pension Commission (Administration trust fund)	16,015,000	15,160,000	14,489,000
Contractors' holdbacks	14,888,000	10,361,000	8,802,000
Prairie Farm Emergency Fund	10,852,000	3,295,000	—
Veterans' Land Act trust account	7,464,000	7,041,000	4,496,000
Army Benevolent Fund	5,241,000	5,385,000	5,560,000
Canadian vessel construction assistance	4,264,000	6,982,000	478,000
Contractors' security deposits	3,945,000	5,254,000	6,028,000
Permanent services deferred pay	3,362,000	3,464,000	3,434,000
Northwest Territories revenue account	1,381,000	3,417,000	2,683,000
Other	28,703,000	24,564,000	24,503,000
	$ 347,314,000	$ 310,729,000	$ 262,837,000

The Federal Government collects provincial income taxes from persons on behalf of provinces except Quebec and from corporations on behalf of all provinces except ıtario and Quebec. At March 31, 1967 collections had exceeded remittances by 2,532,000.

The balance in "Post Office Savings Bank", $20,756,000, is the amount on deposit 297,676 depositors' accounts—a reduction of $1,268,000 and 939 accounts during the ar. Interest is paid on deposits at a rate of 2½% per annum.

The net decrease of $4,402,000 in the deposit accounts of the National Harbours ard was due to the Board financing certain capital expenditures from these funds.

The Prairie Farm Assistance Act, R.S., c.213, imposes a levy of 1% on the price of in purchased by licensees under the Canada Grain Act and the moneys collected are dited to the Prairie Farm Emergency Fund. Awards are made to eligible farmers in as affected by crop failures in the provinces of Manitoba, Saskatchewan and Alberta l the Peace River District of British Columbia. During 1966-67 credits to the Fund alled $10,994,000 while awards totalled $3,437,000, resulting in a surplus of $7,557,000 the year.

Under the terms of the Canadian Vessel Construction Assistance Act, R.S., c.43, ners of vessels who claimed special depreciation allowances under the Income Tax Act y at the time of disposal of a vessel deposit the amount of tax on recaptured deprecia- n with the Canadian Maritime Commission. In the event of a purchase of a new vessel

within seven years, under certain conditions, such deposit may be returned to the owners. During the year $2,659,000 was deposited to this account and $5,377,000 was returned to the owners.

The $28,703,000 shown for "Other" balances at March 31, 1967 represents the total of 95 balances including: Royal Canadian Mint prepayments, $4,038,000; Veterans care trust fund, $3,359,000; Common school funds, $2,678,000; Emergency gold mining assistance holdbacks, $2,417,000; National Research Council of Canada special fund, $2,168,000; and the Immigration guarantee fund, $1,887,000.

187. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1967, in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	March 31, 1967	March 31, 1966	March 31, 1965
Public Service Superannuation Account	$ 2,689,468,000	$ 2,390,383,000	$ 2,161,828,000
Canadian Forces Superannuation Account	2,577,017,000	2,184,210,000	2,028,123,000
Royal Canadian Mounted Police Superannuation Account	85,081,000	65,411,000	57,707,000
Government Annuities Account	1,324,519,000	1,317,080,000	1,303,137,000
Canada Pension Plan Account	680,881,000	89,406,000	—
Old Age Security Fund	429,592,000	216,983,000	—
Other	128,574,000	128,660,000	125,046,000
	$ 7,915,132,000	$ 6,392,133,000	$ 5,675,841,000

The transactions during the year ended March 31, 1967 in each of the three superannuation accounts are summarized as follows:

Public Service Superannuation Account

Balance, April 1, 1966		$ 2,390,383,000
Add:		
Actuarial adjustment re pay increases—contra—"deferred charges" account	$ 152,166,000	
Interest	98,500,000	
Contributions by the Government	63,076,000	
Contributions by participants	59,371,000	
Other credits	874,000	
		373,987,000
		2,764,370,000
Deduct:		
Annuity payments	62,808,000	
Withdrawals of contributions	11,046,000	
Other charges	1,048,000	
		74,902,000
Balance, March 31, 1967		$ 2,689,468,000

'anadian Forces Superannuation Account

Balance, April 1, 1966		$ 2,184,210,000
Add:		
Actuarial adjustment re pay increases—contra—"deferred charges" account	$ 279,228,000	
Interest	91,733,000	
Contributions by the Government	42,638,000	
Contributions by participants	25,084,000	
Other credits	266,000	
		438,949,000
		2,623,159,000
Deduct:		
Annuity payments	36,811,000	
Gratuities and withdrawal allowances	9,196,000	
Other charges	135,000	
		46,142,000
Balance, March 31, 1967		$ 2,577,017,000

ioyal Canadian Mounted Police Superannuation Account

Balance, April 1, 1966		$ 65,411,000
Add:		
Actuarial adjustment re pay increases—contra—"deferred charges" account	$ 11,100,000	
Contributions by the Government	4,529,000	
Interest	2,841,000	
Contributions by participants	2,142,000	
Contributions by Newfoundland	17,000	
Other credits	13,000	
		20,642,000
		86,053,000
Deduct:		
Annuities and allowances payments	638,000	
Termination payments	321,000	
Other charges	13,000	
		972,000
Balance, March 31, 1967		$ 85,081,000

The following is a summary of the transactions in the Government Annuities :count during the past three years:

	Year ended March 31		
	1967	1966	1965
Balance at beginning of year	$ 1,317,080,000	$ 1,303,137,000	$ 1,284,262,000
Add:			
Interest	50,602,000	50,048,000	49,180,000
Premiums	21,944,000	27,619,000	30,162,000
Sundry adjustments	39,000	6,000	10,000
	72,585,000	*77,673,000*	*79,352,000*
	1,389,665,000	1,380,810,000	1,363,614,000

	Year ended March 31 1967	1966	1965
Deduct:			
Vested annuity and commuted value payments and refunds	$ 65,018,000	$ 62,228,000	$ 59,782,000
Transfer to revenue of the excess over actuarial value of outstanding contracts	128,000	1,502,000	695,000
	65,146,000	*63,730,000*	*60,477,000*
Balance at end of year	$ 1,324,519,000	$ 1,317,080,000	$ 1,303,137,000

The following is a summary of the transactions in the Canada Pension Plan Account for the year ended March 31, 1967 and for the period from January 1, 1966 (date of inception) to March 31, 1966:

	Year ended March 31, 1967	January 1 to March 31, 1966
Balance at beginning of year	$ 89,406,000	$ —
Add:		
Contributions from employers and employees	587,202,000	94,880,000
Interest	12,084,000	37,000
Other income	617,000	—
	599,903,000	*94,917,000*
	689,309,000	94,917,000
Deduct:		
Administrative expense	8,377,000	5,511,000
Benefit payments	51,000	—
	8,428,000	*5,511,000*
Balance at end of year	$ 680,881,000	$ 89,406,000

The following is a summary of the transactions in the Old Age Security Fund during the past three years:

	Year ended March 31 1967	1966	1965
Collections of tax—			
On sales	$ 559,515,000	$ 522,086,000	$ 383,150,000
On personal incomes	576,600,000	494,900,000	431,900,000
On corporation incomes	149,500,000	152,250,000	145,250,000
	1,285,615,000	1,169,236,000	960,300,000
Payments of pensions under the Old Age Security Act	1,073,006,000	927,299,000	885,294,000
Surplus for the year	212,609,000	241,937,000	75,006,000
Preceding year's balance brought forward	216,983,000	(24,954,000)	(99,960,000)
Surplus (deficit) at March 31	$ 429,592,000	$ 216,983,000	$ (24,954,000)

The following is a listing of the major items included in "Other" at March 31, 1967 n comparison with the balances at the close of the two previous years:

	March 31, 1967	March 31, 1966	March 31, 1965
Veterans Insurance Fund	$ 30,961,000	$ 30,123,000	$ 29,027,000
Civil Service Insurance Fund	24,152,000	24,218,000	24,289,000
Canadian Regular Forces Death Benefit Account	17,901,000	16,717,000	15,010,000
Unemployment Insurance Fund	13,844,000	13,571,000	14,282,000
Public Service Death Benefit Account	12,774,000	11,197,000	9,876,000
Returned Soldiers' Insurance Fund	11,413,000	12,115,000	12,707,000
Royal Canadian Mounted Police Dependents' Pension Fund	7,901,000	7,663,000	7,369,000
Pilots' Pension Funds	3,395,000	5,214,000	4,699,000
Public Service Retirement Fund	2,708,000	5,185,000	5,576,000
Members of Parliament Retiring Allowances Account	2,329,000	2,075,000	1,920,000
Sundry	1,196,000	582,000	291,000
	$ 128,574,000	$ 128,660,000	$ 125,046,000

The decrease of $2,477,000 in the Public Service Retirement Fund is due mainly o transfers to the Public Service Superannuation Account relative to the past service f certain prevailing rate and seasonal employees who were made eligible for superannuaon by the Statute Law (Superannuation) Amendment Act, 1966, *1966-67, c.44*.

The transactions during the year ended March 31, 1967 in the Members of Parliaent Retiring Allowances Account are summarized as follows:

Balance, April 1, 1966		$ 2,075,000
Add:		
Contributions by participants	$ 239,000	
Contributions by the Government	224,000	
Interest	88,000	
		551,000
		2,626,000
Deduct:		
Annual allowances	289,000	
Withdrawal allowances	8,000	
		297,000
Balance, March 31, 1967		$ 2,329,000

188. *Undisbursed balances of appropriations to special accounts.* The following is a ting of the balances included in this item at March 31, 1967 in comparison with the lances at the close of the two previous years:

	March 31, 1967	March 31, 1966	March 31, 1965
International Development Assistance Fund	$ 61,485,000	$ 78,680,000	$ 82,245,000
Railway Grade Crossing Fund	10,279,000	11,005,000	6,865,000
Centennial of Confederation Fund	4,715,000	10,555,000	6,024,000
National Capital Fund	—	1,626,000	426,000
Other	94,000	79,000	143,000
	$ 76,573,000	$ 101,945,000	$ 95,703,000

The International Development Assistance Fund was established under authority of Department of External Affairs Vote 33d, Appropriation Act No. 2, 1965, *1964-65, c.50.* The Fund provides for economic, technical and educational assistance to developing countries and for certain special administrative expenses in connection therewith. Under authority of Department of External Affairs Vote 35, Appropriation Act No. 9, 1966, *1966-67, c.55,* the Fund was credited during the year with $48,500,000. Expenditures during 1966-67 totalled $65,695,000.

Amounts of $5,000,000 provided under section 265 of the Railway Act, R.S., c.234, and $10,000,000 provided under Department of Transport Vote 82, Appropriation Act No. 9, 1966, *1966-67, c.55,* were credited to the account for the Railway Grade Crossing Fund during 1966-67. Expenditure totalling $15,726,000 was incurred in aiding in the cost of installing protective devices at railway crossings, grade separations, and reflective markings on the sides of railway cars.

An amount of $13,000,000 provided by Department of the Secretary of State Vote 45, Appropriation Act No. 9, 1966, *1966-67, c.55,* was credited to the Centennial of Confederation Fund, while expenditure of $18,840,000 was charged thereto.

An amount of $25,000,000 provided by the Department of Public Works Vote 65, Appropriation Act No. 9, 1966, *1966-67, c.55,* was credited to the National Capital Fund and the Fund was charged with payments to the National Capital Commission totalling $26,626,000 to finance the cost of projects approved by the Governor in Council.

189. *Refundable corporation tax.* The balance of $196,157,000 represents amounts received from corporations and trusts as special refundable income tax computed in accordance with an amendment (1966-67, c.47) to the Income Tax Act, R.S., c.148. This special tax applies to the period May 1, 1966 to October 31, 1967 and is refundable, with interest at 5% per annum, from 18 to 36 months after the date of receipt.

190. *Deferred credits.* The following is an analysis of this item at the close of the 1966-67 fiscal year and the two previous years:

	March 31, 1967	March 31, 1966	March 31, 1965
Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946	$ 82,985,000	$ 82,985,000	$ 63,761,000
Deferred interest on loans to The St. Lawrence Seaway Authority	47,768,000	45,145,000	38,724,000
Equity in agency account of Crown Assets Disposal Corporation	7,298,000	5,004,000	5,522,000
Credits arising from the recording of agreements of sale of Crown assets	288,000	1,355,000	2,991,000
Unamortized premium on loans	1,188,000	1,157,000	—
Other balances	3,301,000	2,473,000	2,210,000
	$ 142,828,000	$ 138,119,000	$ 113,208,000

The St. Lawrence Seaway Authority paid $13,750,000 on account of interest previ ously deferred, while payment of interest for the year 1966, amounting to $16,373,00

was in turn deferred. This deferred interest is payable by the Authority over a 42-year period along with repayments of principal.

The unamortized premium on loans relates to three loans maturing on April 1, 1969, October 1, 1969 and September 1, 1992, for which bonds were issued at a premium of $1,337,000 during 1965-66 and $375,000 during 1966-67. This premium was amortized to the extent of $524,000, the amortization being credited to interest on the public debt. The balance is to be amortized over the remaining life of the bonds.

191. *Suspense accounts.* This item increased by $19,558,000 over the previous year due largely to an increase of $10,144,000 from sales of surplus materials, supplies and equipment and $5,202,000 from sales of surplus buildings, works and land, credited to a special account established in accordance with Department of National Defence Vote 48, Appropriation Act No. 2, 1966, *1966-67, c.3.* Provision for the premium payable at maturity on Canada Savings Bonds maturing November 1, 1968 increased by $2,333,000 during the year and future monthly amounts will be provided so that the provision at maturity date will be $21 million. A provision of $2,687,000 was set up to cover the initial portion of the special compound interest payable on the Centennial Series of Canada Savings Bonds when held to maturity on November 1, 1979. Also included under this heading is $1,175,000 in the Unclaimed Cheques account, $790,000 in the Hospital Insurance—Outside Canada account, and $641,000 in the National Defence Replacement of Materiel account.

192. *Unmatured debt.* A summary of the unmatured debt outstanding at March 31, 1967, in comparison with balances outstanding at the close of the previous two years, is as follows:

	March 31, 1967	March 31, 1966	March 31, 1965
Bonds—			
Payable in Canada	$ 17,264,612,000	$ 16,588,787,000	$ 16,461,809,000
Payable in New York	365,594,000	371,000,000	376,405,000
	17,630,206,000	*16,959,787,000*	*16,838,214,000*
Treasury bills (not exceeding 180 days)	2,310,000,000	2,150,000,000	2,140,000,000
	$ 19,940,206,000	$ 19,109,787,000	$ 18,978,214,000

The increase of $675,825,000 in the bonds payable in Canada is the amount by which new borrowings of $3,929,790,000 exceeded redemptions of $3,253,965,000. Canada Savings Bonds accounted for $2,270,997,000 of the new borrowings and $1,987,763,000 of the redemptions.

Issues payable in New York were valued at the official parity rate of $1 U.S. = $1.08108 Canadian.

It has always been the practice to include treasury bills and bonds maturing within the ensuing fiscal year in the amount for "Unmatured debt" along with issues maturing

at later dates. In addition to treasury bills of $2,310 million shown in the above table as maturing within 180 days, the following issues, all payable in Canada, fall due in 1967-68:

Loan of 1966-1967 due April 1, 1967	$ 170,000,000
Loan of 1966-1967 due April 1, 1967	155,000,000
Loan of 1961-1967 due June 1, 1967	275,000,000
Loan of 1965-1967 due June 1, 1967	50,000,000
Loan of 1962-1967 due October 1, 1967	100,000,000
Loan of 1964-1967 due October 1, 1967	250,000,000
Loan of 1966-1967 due October 1, 1967	175,000,000
Canada Savings Bonds due November 1, 1967	17,451,000
Loan of 1962-1968 due January 15, 1968	250,000,000
Loan of 1964-1968 due January 15, 1968	130,000,000
Loan of 1966-1968 due January 15, 1968	125,000,000
	$ 1,697,451,000

Net Debt

193. With the Liabilities amounting to $30,340,137,000 (paragraph 184) and the Assets to $14,375,187,000 (paragraph 171), the Net Debt at March 31, 1967 was $15,964,950,000. The following is an analysis of the Net Debt Account for the year:

Balance, April 1, 1966		$ 15,543,448,000
Deficit for the year—		
Expenditure	$ 8,797,684,000	
Revenue	8,376,182,000	
		421,502,000
Balance, March 31, 1967		$ 15,964,950,000

Contingent Liabilities

194. A note on the Statement of Assets and Liabilities gives the totals of the several classes of contingent liabilities at the year-end and refers to page 7.88 of the Public Accounts (Volume I) where details are to be found.

The following is a summary of the main contingent liabilities with determinate amounts outstanding at March 31, 1967 in comparison with the corresponding amounts at the close of the two previous years:

	March 31, 1967	March 31, 1966	March 31, 1965
Insured loans made by approved lenders under the National Housing Act, 1954	$ 5,789,000,000	$ 5,321,621,000	$ 4,949,864,000
Railway securities guaranteed as to principal and interest	1,275,948,000	1,331,548,000	1,368,298,000
Deposits maintained by the chartered banks in the Bank of Canada	1,148,002,000	1,031,322,000	897,218,000
Guarantees under Export Credits Insurance Act, Part 1	458,096,000	508,213,000	468,644,000
Loans made by chartered banks to the Canadian Wheat Board	329,018,000	232,037,000	169,770,000
Other contingent liabilities of determinate amount	427,389,000	227,994,000	112,248,000
	$ 9,427,453,000	$ 8,652,735,000	$ 7,966,042,000

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under National Housing Acts prior to 1954.

Comments on Assets and Liabilities

195. Section 64 of the Financial Administration Act requires that there be included n the Public Accounts "a statement, certified by the Auditor General, of such of the ssets and liabilities of Canada as in the opinion of the Minister [of Finance] are required o show the financial position of Canada as at the termination of the fiscal year".

196. The Statement of Assets and Liabilities as at March 31, 1967 was prepared by he Department of Finance on the same basis as in previous years, the following explana- ion concerning this basis being included in the introduction to the Public Accounts:

> With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of $1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.
>
> On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the "Current and demand liabilities" schedule to the statement of assets and liabilities.

This explanation reflects a policy established by the Minister of Finance in 1920, at assets to be included in the Statement of Assets and Liabilities should be confined those which are readily convertible or which are revenue-producing. The Minister had mediately implemented this policy by removing from the Statement of Assets and abilities a substantial amount in loans, etc., which could not meet this test.

This policy has been followed by successive Ministers of Finance ever since but a ajor exception was introduced in 1957-58 when funds required by the National Capital mmission for the purchase of lands in the Greenbelt were recorded as loans to the mmission instead of budgetary expenditure as had formerly been the case. They were ven the appearance of being revenue-producing by asking Parliament to appropriate oney to the National Capital Commission with which to pay interest on the loans. The blic Accounts Committee, which holds the view that outlays on property in the Green- lt are expenditures of the Crown rather than income-producing investments, has on two

occasions requested the Department of Finance to review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis (see Appendix 1, item 18).

A further major exception to the policy was introduced in 1964-65 when, as we pointed out in our 1965 Report, the funds required by the Canadian Broadcasting Corporation to meet its capital expenditures during the year ended March 31, 1965 were provided by means of loans instead of grants as in the past. Paragraph 68 of this Report outlines the extent to which this practice has been continued.

Another major exception to this policy was made in 1965-66 when the grants provided to the Canadian Corporation for the 1967 World Exhibition became exhausted and Parliament was asked to approve of loans to the Corporation rather than additional grants although it was obvious at the time, because of the deficit forecast for the Corporation, that a substantial portion of the loans could never be repaid.

Other exceptions to the policy include the following:

1. Loans to the Government of the Northwest Territories amounting to $7,179,000 (out of a total of $8,876,000). By agreement Canada pays a yearly amortization subsidy equivalent to the loan repayments and interest coming due each year.
2. Loans to the Government of the Yukon Territory amounting to $7,579,000 (out of a total of $9,073,000). By agreement Canada pays a yearly amortization subsidy equivalent to the loan repayments and interest coming due each year.
3. A loan of $350,000 to the Northern Canada Power Commission in 1964 for the purpose of extending the utilidor system at Inuvik, N.W.T. The intention is that on completion the cost is to be covered by a parliamentary appropriation.
4. A loan of $300,000 to the Northern Canada Power Commission in January 1967 for the purpose of reconstructing the existing water supply system of Dawson, Y.T. The cost is to be covered by funds appropriated by Parliament as a grant to the Government of the Yukon Territory.
5. Loans totalling $5,500,000 authorized as capital assistance to the Town of Oromocto, N.B., of which $5,400,000 has been advanced. Repayments of $1,300,000 have been received together with interest which has been credited as revenue of the year in which received. The source of the funds for repayment of the loans and payment of the annual interest has been the annual operating grants made to the Town by the Department of National Defence. The operating grant in 1966-67 was $1,750,000 of which $211,500 was repaid to Canada on the capital assistance loans and $220,000 was repaid as interest. The Town of Oromocto does not have the resources to pay either the principal instalments or the interest on these loans independently of the operating grants received from the Department.

In its Seventh Report 1966-67 presented to the House on October 26, 1966 the Public Accounts Committee stated that it was disturbed to learn that not only was no review undertaken by the Department of Finance in the case of the National Capital Commission but that the practice was continued and further extended in 1964-65 when the House was asked to approve loans to the Canadian Broadcasting Corporation. The

Committee reiterated its opinion that "expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada" (see Appendix 1, item 36).

With respect to the financing of the Canadian Corporation for the 1967 World Exhibition, the Committee included the following in its Seventh Report (see Appendix 1, item 37):

> The Committee recommends that amendments to the existing legislation be placed before Parliament and the Legislature of the Province of Quebec so that the additional grants required can be made by the parties concerned, namely Canada, Quebec and the City of Montreal. The Committee directs the attention of the House to the fact that unless these additional grants are provided, the Corporation's presently estimated total requirement of $143 million (less $40 million already provided by Canada, Quebec and Montreal) will have been financed by loans from Canada and the Corporation will be burdened with the cost of additional interest and at the conclusion of the Exhibition will not have the cash resources necessary for payment of its indebtedness to Canada.

Under the policy outlined at the beginning of this section the cost of government uildings and other public works undertaken by government departments is charged to xpenditure at the time of acquisition or construction because the departments are ependent on public revenues for their capital needs. The two Crown corporations ferred to previously are also dependent on public revenues for their capital needs. The anadian Corporation for the 1967 World Exhibition is similarly dependent on public venues to cover the cost of its residual assets estimated at $67 million and its antipated deficit of $211 million (see also paragraph 226).

The practice of making loans of this type instead of grants has had the effect of iderstating the Deficit shown in the Public Accounts each year since 1958. To the tent that grants are made in later years to provide for repayment of the loans, the eficit will increase or the Surplus decrease in those years.

197. *Accounts receivable.* Taxes and sundry accounts receivable are not recorded assets in the Statement of Assets and Liabilities.

Information regarding the accounts receivable of each department at March 31, in mparison with the corresponding information at the close of the preceding year, is ven in the several departmental sections of Volume II of the Public Accounts.

A summary of the accounts receivable totals by departments is included as Appendix 13 on page 9.26 of Volume I of the Public Accounts. This summary shows a total $345,480,000 receivable at March 31, 1967 of which $1,079,000 is shown as uncollectle. The comparable figures for the previous year were $292,424,000 and $1,127,000 spectively. Uncollectable accounts of the Department of National Revenue amounting some $20,433,000 at March 31, 1967 have not been segregated in the summary.

The accounts receivable totals reported as at March 31, 1967 were the amounts remaining after certain uncollectable debts totalling $16,788,200 had been deleted from the accounts under the following authorities:

Appropriation Act No. 2, 1967, *1966-67, c.85*—Treasury Board Vote 25g—amounts in excess of $1,000	$ 15,132,500
Financial Administration Act, section 23—amounts of $1,000 or less	526,700
Bankruptcy Act, R.S., c.14, section 135—discharged bankrupts	869,300
Unemployment Insurance Act, 1955, c.50:	
section 42—unpaid contributions	164,500
section 67—overpaid benefits	87,400
Department of Justice Act, R.S., c.71	7,800
	$ 16,788,200

A summary of deletions by departments follows:

Department	Items	Total deleted
Defence Production	77	$ 259,000
External Affairs	244	15,200
Indian Affairs and Northern Development	78	16,000
National Defence	205	92,300
National Revenue—		
Customs and Excise Division	630	1,227,300
Taxation Division	3,291	14,740,700
Public Works	11	47,100
Transport	294	5,600
Unemployment Insurance Commission	—	306,000
Veterans Affairs	271	57,400
Other	281	21,600
		$ 16,788,200

In previous Reports we have drawn attention to the fact that some departments were not keeping their accounts receivable records accurately and efficiently in that they were not maintaining controlling accounts or providing for an effective verification of the accounts by officers other than those responsible for keeping them.

The Treasury Board has now developed a policy with respect to revenue control designed to eliminate the conditions referred to by the Auditor General, the Public Accounts Committee (in its Sixth Report 1964-65) and the Royal Commission on Government Organization. Some improvement has been noted but a number of departments have not yet adopted the procedures called for under this policy and their accounts receivable records were not accurately and efficiently kept during the year and, as a consequence, weaknesses in internal control continue to exist.

Included in the accounts receivable are amounts totalling $2,069,000 compared with $746,000 in the previous year, representing intra- and inter-departmental accounts which should have been settled before the books were closed for the year. The accounts had not been settled because of

(1) delays by creditor departments in submitting billings,
(2) delays by debtor departments in processing invoices, and
(3) insufficient funds in various departmental appropriations.

The Treasury Board presently has this problem under consideration.

198. *Accounts receivable—Department of National Revenue.* Of $345 million of accounts receivable at March 31, 1967, $308 million was applicable to the Department of National Revenue. With the co-operation of the officials of the Customs and Excise Division and the Taxation Division of the Department, analyses have been prepared showing the nature and amounts of the unpaid accounts of these Divisions.

CUSTOMS AND EXCISE DIVISION. The following is a summary of the accounts receivable of this Division at March 31, 1967 with comparable amounts at the close of the previous year:

	March 31, 1967	March 31, 1966
Collectable—		
Excise taxes	$ 16,207,000	$ 12,673,000
Duties and taxes on importations	2,056,000	11,990,000
Customs seizures	658,000	686,000
Investigations	152,000	162,000
Sundry	11,000	1,000
	19,084,000	25,512,000
Uncollectable—		
Excise taxes	663,000	870,000
Duties and taxes on importations	241,000	204,000
Customs seizures	54,000	46,000
Investigations	11,000	—
Sundry	4,000	4,000
	973,000	1,124,000
	$ 20,057,000	$ 26,636,000

The substantial decrease in unpaid duties and taxes on importations is due to the fact that the total of the accounts receivable at March 31, 1967 has been established on basis different to that used at March 31, 1966.

The accounts receivable at March 31, 1966 included estimated amounts owing by otor vehicle manufacturers who had failed to qualify for the tax exemptions they had ceived. However, departmental officials have taken the position that until verification of mpany records is complete and the actual amount payable has been determined, there e no amounts owing to the Crown, despite the fact that returns to the Department indi-te failure to achieve the required quotas. Consequently, the Department has estab-hed no amounts during the year as owing with respect to duties and taxes on importa-ons by motor vehicle manufacturers who had failed to qualify for the tax exemptions ey had received. Furthermore, an amount of $4.2 million which is included in the arch 31, 1966 figures has been omitted from the March 31, 1967 figures although pay-ent has not yet been received. Of this, an amount of $2.2 million has since been remitted the Governor in Council. (See paragraph 119 of this Report.)

The uncollectable amount of $241,000 of duties and taxes on importations is the result of errors made requiring the passing of amending entries, and of tourist exemptions claimed but later disallowed because of an exemption within the preceding four months.

There is no requirement that interest be charged on overdue accounts except in the case of amounts owing by excise tax licensees.

In our 1965 and 1966 Reports we stated that the Division was preparing to extend the system of accounts receivable control accounts to include all receivables. The Department has not yet accomplished this and there are control accounts only for excise taxes. The Division is now able to supply an aging of its accounts as between current and previous years.

TAXATION DIVISION. The following is a summary of the accounts receivable of this Division at March 31, 1967 with comparable amounts at the close of the previous year:

	March 31, 1967	March 31, 1966
Income tax—		
Individuals	$ 130,408,000	$ 126,077,000
Corporations	124,677,000	71,189,000
Tax deductions	9,754,000	8,463,000
Non-residents	4,093,000	2,907,000
Deferred tax	5,431,000	5,860,000
	274,363,000	*214,496,000*
Estate tax and succession duty	13,345,000	13,577,000
Provincial income tax	1,000	30,000
Sundry	6,000	2,000
	$ 287,715,000	$ 228,105,000

Of the total of $288 million shown above, $92 million (32%) represents current collectable accounts. The remainder, $196 million (over 103,000 accounts), had not been collected for the following reasons:

	March 31, 1967	March 31, 1966
1. Under appeal There were 1,384 accounts under appeal at March 31, 1967 of which 333 totalling $91 million were secured or partially secured.	$ 147,722,000	$ 85,984,000
2. Uncollectable There were 21,706 accounts classified as uncollectable at March 31, 1967 of which 146 totalling $6,822,000 were accounts in bankruptcy of $10,000 or more. During the year 3,291 accounts amounting to $14,741,000 were written off.	19,460,000	42,438,000
3. Current assessments This amount represents 80,254 accounts for recent assessments and re-assessments the bulk of which were not due until April 30, 1967.	23,140,000	27,248,000
4. Duplicate assessments Duplicate assessments are not included in the totals as at March 31, 1967.	—	3,058,000
5. Temporarily uncollectable No such segregation was made as at March 31, 1967 as it is not considered to be realistic.	—	13,922,000

	March 31, 1967	March 31, 1966
6. Deferred tax..	$ 5,431,000	$ 5,860,000
In accordance with section 13 of the Income War Tax Act, 1943-44, c.14, the deferred tax is collectable only on the death of the taxpayer. The taxpayer had the option of paying part of the 1942 tax at a discount or having the executors pay it from his estate.		
7. Provincial income tax..................................	1,000	30,000
This amount which is regarded as uncollectable represents the balance of 1939-40 provincial income tax arrears for Ontario transferred to the Federal Government for collection under authority of the Dominion-Provincial Taxation Agreement Act, 1942, *1942-43, c.13*. During the year $29,000 of accounts owing to the Province of Quebec were written off with the approval of the Province.		
	$ 195,754,000	$ 178,540,000

In our opinion analyses or details of debts due to the Crown should be prepared y this Department, and by other departments responsible for large groupings of accounts ceivable, and made available to Parliament each year in the Public Accounts or in the partmental annual reports.

199. *Accounts receivable—Department of External Affairs.* The accounts receivable this Department include an amount of $1,238,000 owing to Canada from the fund iown as the "Common Pool" established by the Geneva Conference on the problem of storing peace in Indo-China. An additional amount of $998,000 is recoverable on half of the Department of National Defence by the Department of External Affairs.

This total of $2,236,000 represents certain costs incurred by Canada as far back 1960-61 in serving on the Indo-China Truce Commissions, which have not yet been covered. No payment has been received from the "Common Pool" since February 63 but Canada's assessments toward financing the Laos International Commission since 62-63 amounting to $154,000 have been applied against the indebtedness.

We understand that the failure of The People's Republic of China to continue its ntributions has resulted in the "Common Pool" being unable to pay all of the costs which it is responsible.

In the absence of any reimbursement from the "Common Pool" over a period of ır years, in which expenditures on a recoverable basis on behalf of the Indo-China uce Commissions have averaged $436,000 per year, it would appear that new financing angements should be sought.

200. *Accounts receivable—Department of Indian Affairs and Northern Development.* e accounts receivable of this Department amounted to $1,720,000 at March 31, 1967 l included uncollectable accounts amounting to $182,000.

In our 1966 Report (paragraph 176) it was pointed out that examinations of the ounts receivable of the Department (then the Department of Northern Affairs and tional Resources) as at March 31, 1965 and March 31, 1966 had revealed a substantial

number of errors. We had informed the Department that a lack of uniformity of procedures indicated the need for more effective controls, more specific directions and closer supervision.

In December 1966 we were advised by the Department that one element of a program recently initiated for the development and implementation of improved financial control devices would relate to the accounts receivable problem. The system to be developed would provide for reconciliations, aging of accounts and management reports at regular intervals.

Our examination of the accounts receivable at March 31, 1967 again gave grounds for criticism although a number of steps taken towards more effective control should result in improvement before the next year-end.

As reported in 1966, the accounts owing to the Department include an amount of \$225,000 advanced to the Banff Recreational Centre in 1961-62 as a loan towards the construction of a building suitable for use as a curling rink. The loan is repayable in twenty equal annual instalments commencing November 1, 1966, with interest at $5\frac{1}{4}\%$ payable annually. The operations of the Centre have failed to produce sufficient revenue to permit any payment of principal or interest. The arrears of interest now amount to \$56,000, bringing the total recorded indebtedness at March 31, 1967 to \$281,000. Accrued interest of \$4,900 at that date had not been set up on the books. Consultants engaged by the Department in 1964 reported that the Centre's pattern of operations was such that it was unable to meet its loan commitments to the Federal Government. The Department was authorized to pay an amount of \$32,100 in 1965 to liquidate a liability of the Centre in connection with the purchase of ice-making equipment and the payment was made subject to the Centre giving assurance that it would assume responsibility for the curling rink and meet its other obligations; that if these obligations were not met the rink would be closed until such time as the community made reasonable proposals for taking over its operation. The Centre appears to have remained open in the interim.

201. *Cash on deposit in chartered banks.* Included in the item "Cash" is an amount of \$815 million on deposit in bank accounts. Of this amount, \$794 million was on deposit in the chartered banks in Canada, \$9 million in the Bank of Canada and \$12 million in banks in London, New York, Paris and Bonn.

The balances on deposit in foreign bank accounts are working balances against which cheques are drawn and which do not earn interest. The Bank of Canada, in accordance with the provisions of section 19(*e*) of the Bank of Canada Act, R.S., c.13, does not pay interest on deposits. However, profits of the Bank of Canada are paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund.

Balances on deposit in the chartered banks in Canada in excess of \$100 million earn interest on the minimum weekly balances at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%. As in previous years, no interest was received on the aggregate of \$100 million which was kept on deposit in the chartered banks throughout the year (see also paragraph 69).

202. *Departmental working capital advances.* This item appearing in the Statement ıf Assets and Liabilities under the caption "Current assets" amounted to $157,795,000 t March 31, 1967. Included are a number of revolving funds established by various ppropriation Acts and other legislation. The principles governing the operation of these evolving funds are reflected in the provisions of sections 58, 59 and 60 of the Financial dministration Act. These sections specify the charges and credits which may be made ɔ a revolving fund and the composition of the balance of the fund at the year-end. ection 58 (5) states that any surplus resulting from the operations of the fund shall be ransferred from the revolving fund as revenue and that no amount may be credited) the fund to meet any deficiency in it without the authority of Parliament. The purpose f these provisions is to maintain working capital advances intact and to enable Parlia- ıent to exercise financial control over these funds.

Some of the practices followed in the operation of these funds do not conform to the rinciples established with respect to revolving funds. Examples are:

(*a*) The Queen's Printer's Advance Account was charged with the cost of capital equipment amounting to $549,000 during the year and $287,000 in the previous year. Formerly these costs were met from appropriations provided for that purpose. The Deputy Attorney General has expressed the opinion that the term "material", referred to in section 37 of the Public Printing and Stationery Act, R.S., c.226, which provides for advances to enable the Queen's Printer "to purchase material for the execution of orders...", is sufficiently broad to include capital equipment. Such an interpretation of the term "material" would appear to be too broad when related to capital equipment having a useful life of many years. Furthermore, parliamentary control over capital expenditure of the Canadian Government Printing Bureau is thereby eliminated.

(*b*) The National Film Board Operating Account, established by section 18 of the National Film Act, R.S., c.185, has been used to finance the purchase of capital equipment for the Canadian Government Photo Centre under the authority of Vote L30, Appropriation Act No. 5, 1963, *1963, c.42,* to the extent of $240,000 up to March 31, 1967, of which $75,000 had been recovered through charges for services rendered. In this case Parliament has surrendered its control over the capital expenditures of the Canadian Government Photo Centre.

(*c*) The Central Data Processing Service Bureau is authorized by Vote L99e, Appropriation Act No. 4, 1966, *1966-67, c.6,* to operate a working capital advance account to finance the provision of data processing and related services to government departments and agencies. At March 31, 1967 the operating account had been charged with capital expenditures of $65,000 and the 1967-68 budget provides for further capital expenditures of $108,000 although there is no specific reference to capital equipment in the vote wording. An initial operating loss of $269,000 has been incurred and remains as part of the balance in the account. This is expected to be recovered from user departments in future years.

From examples (*b*) and (*c*) it may be seen that "Departmental working capital vances" which are classified as "Current assets" in the Statement of Assets and Liabilis include capital expenditures and operating deficits which are not, of course, current ets (see also paragraph 57 of this Report).

203. *Agricultural Products Board Account.* The operations of the Agricultural Products Board during the year 1966-67 resulted in a loss of $7,214,000. This loss was met to the extent of $5,663,000 by funds provided by Department of Agriculture Vote 17g, and to the extent of $391,000 by government departments which provided major services without charge (see paragraph 252 of this Report). The balance of the loss amounting to $1,160,000 remains as a charge to the Agricultural Products Board Account and is included in the balance of $1,741,000 at March 31, 1967. This amount appears as a current asset item (see paragraph 172) although to the extent of $1,160,000 it represents a loss which must eventually be written off to expenditure (see also paragraph 167 of this Report).

204. *Loans to national governments.* In 1965-66 a policy was adopted of making loans to assist developing countries. Loans amounting to $15,054,000 have been made to seven developing countries, an increase of $9,798,000 in the year. Included are loans to five developing countries amounting to $11,710,000 repayable over a period of forty years following a grace period of ten years, at an interest rate of $\frac{3}{4}$ of 1% per annum on the amount of the loans committed less repayments.

205. *Other loans and investments—Department of Energy, Mines and Resources.* In paragraph 180 of last year's Report, attention was directed to the status of loans made under the provisions of the Coal Production Assistance Act, R.S., c.173, administered by the Dominion Coal Board. Particular reference was made to arrears of repayments by four companies amounting to $1,318,000, of which $1,255,000 was owed by one company, and we noted that, although this company had received $13,657,000 under the statutory provision for payments in connection with the movements of coal, no action had been taken to recover the outstanding indebtedness by set-off. During 1966-67 this company continued to default on its repayments with the result that its arrears of repayments totalled $2,521,000 at March 31, 1967 of which $2,050,000 was principal and $471,000 was interest.

This company received $24,767,000 in the year for payments in connection with the movement of coal but no recovery of the amount of the arrears, or any portion thereof, was sought by means of set-off.

206. *Deposit and trust accounts—Public Officers Guarantee Account.* The Public Officers Guarantee Account, established by section 98 of the Financial Administration Act, provides that payments may be made from the Account by way of indemnity for losses suffered by Her Majesty or others by reason of defalcations or other fraudulent acts or omissions of public officers.

Regulations governing the operation of the Account were promulgated by the Treasury Board on December 11, 1959. As there had been considerable delay in transferring some losses to the Account, the Treasury Board on January 19, 1967 directed that unless losses due to defalcations could be recovered in the fiscal year in which they occur, Treasury Board authority to reimburse the losses from the Account was to be sought. Subsection (3) of section 98 of the Act requires that every payment out of the

Public Officers Guarantee Account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer are to be reported annually in the Public Accounts.

The transactions in the Public Officers Guarantee Account since its inception on April 1, 1952 may be summarized as follows:

Balance, April 1, 1952 (transferred from Government Officers Guarantee Fund)		$ 657,013
Add:		
Credits to Account—		
Prior years	$ 6,481	
1966–67	5,178	
		11,659
		668,672
Deduct:		
Charges to Account—		
Prior years	181,177	
1966–67	79,614	
		260,791
Balance, March 31, 1967		$ 407,881

The credits, amounting to $5,178 in 1966-67, represent recoveries of losses charged to the Account in prior years. Six losses amounting to $79,614 were charged to the Account during the year of which three amounting to $62,754 had occurred in prior years. An additional 14 losses totalling $124,343 which occurred in prior years and 24 amounting to $7,722 which occurred during the year have yet to be charged to the Account.

207. *Annuity, insurance and pension accounts—Canadian Forces Superannuation Account.* Section 25 of the Canadian Forces Superannuation Act, 1959, c.21, provides that the Minister of Finance shall lay before Parliament at least once in every five years an actuarial report on the state of the Superannuation Account, containing an estimate of the extent to which the assets of the said Account are sufficient to meet the cost of the benefits payable under this Act". The latest valuation of the Account was as at December 31, 1960. We understand that an actuarial valuation as at December 31, 1965 is underway but that it has been delayed by demands on data processing facilities. It is not expected to be completed until some time in 1968.

208. *Annuity, insurance and pension accounts—Royal Canadian Mounted Police Superannuation Account.* Section 24 of the Royal Canadian Mounted Police Superannuation Act, 1959, c.34, requires that at least once in every five years an actuarial report on the state of the Force's Superannuation Account be laid before Parliament.

On June 5, 1967 a report was tabled showing that an estimated deficit of $6,644,000 existed in the Account at December 31, 1964. This deficit was attributed to (1) a much lower rate of retirement with return of contributions for the five-year period 1959-1964 than had been anticipated, and (2) the assumption in 1959 of a salary scale which was not borne out.

This amount remains to be credited to the Account in accordance with section 23(3) of the Act.

209. *Suspense accounts.* Included in the Statement of Assets and Liabilities is a liability item amounting to $50,949,000 designated as "Suspense accounts". An explanation on page 7.8 of Volume I of the Public Accounts is:

> The accounts in this category cover items in which there are elements involving uncertainty as to accounting treatment or disposal and others in respect of which accounting treatment is known but which are held for final disposition pending completion of certain conditions.

Three of the items included in the Suspense accounts total of $50,949,000 do not come within the description given above and are of sufficient significance to warrant proper classification for statement purposes. These items are:

Finance	
Provision for estimated premium on redemption of bonds	$ 19,993,000
National Defence	
Surplus Crown assets	24,303,000
Treasury Board	
Hospital insurance—outside Canada	790,000

The Department of Finance account "Provision for estimated premium on redemption of bonds" includes the provision to March 31, 1967 for the premium due at maturity on the then outstanding 1959 series of Canada Savings Bonds. It also includes the provision to March 31, 1967 for the special compound interest feature applicable to the Centennial Series of Canada Savings Bonds. Annual provisions are required in order to meet the additional amount payable, either as premium or as additional interest, to the holders of the bonds at the dates of maturity. It is not appropriate that such an accrued liability be classified as a suspense item. The amount has some similarity to items which are included in the "Liabilities" category "Undisbursed balances of appropriations to special accounts" and might well be included in this category. An alternative would be to include such amounts in the category "Unmatured debt" where they could be associated in the supporting schedule with the individual Canada Savings Bonds series.

The Surplus Crown assets account of the Department of National Defence cannot properly be called a suspense item as it represents money available to the Department as a supplement to the appropriations of the Department. In a sense, this amount is an appropriation of revenues for the future use of the Department and, as such, might also be included in the category "Undisbursed balances of appropriations to special accounts".

The Treasury Board account "Hospital insurance—outside Canada" is credited with premiums or contributions by government employees serving outside Canada and is charged with any claims from such employees for hospital expenses incurred outside Canada or inside Canada before they come under the regular provincial hospital insurance schemes. This account is not a suspense account and should more properly be included under the caption "Annuity, insurance and pension accounts".

210. *Suspense accounts—Department of National Defence—Surplus Crown assets.* Included with the liability suspense items is an account authorized by Department of National Defence Vote 48, Appropriation Act No. 2, 1966, *1966-67, c.3*. The Vote authorized payments into a special account in the Consolidated Revenue Fund of:

(*a*) all revenues received during the current and subsequent fiscal years from the sale of surplus materials, supplies and equipment, and
(*b*) revenues received during the current and subsequent fiscal years from the sale during the current fiscal year of surplus buildings, works and land not exceeding an aggregate amount of $5 million.

Department of National Defence Vote 48, Appropriation Act No. 9, 1966, *1966-67, c.55*, authorized payment into the account in 1966-67 and subsequent fiscal years of a further amount of $5 million from the sale during 1966-67 of surplus buildings, works and land.

This account may be used, with the approval of the Treasury Board, to supplement votes of the Department of National Defence.

The following is a summary of transactions in the account in the past year and the cumulative figures since its inception on April 1, 1965:

	Year ended March 31, 1967	Cumulative to March 31, 1967
Balance at April 1, 1966	$ 9,073,000	$
Revenue—		
Surplus materials, supplies and equipment	10,144,000	16,698,000
Surplus buildings, works and land	5,202,000	7,721,000
	24,419,000	24,419,000
Expenditure—		
Buildings, works and land	116,000	116,000
Balance at March 31, 1967	$ 24,303,000	$ 24,303,000

Crown Corporations

211. A Crown corporation, as defined by section 76(1)(c) of the Financial Administration Act, is a corporation that is ultimately accountable, through a Minister, to Parliament for the conduct of its affairs. Departmental corporations are named in Schedule B to the Act and are responsible for administrative, supervisory or regulatory services of a governmental nature. Agency corporations are named in Schedule C and are responsible for the management of trading or service operations on a quasi-commercial basis or for the management of procurement, construction or disposal activities on behalf of the Crown. Proprietary corporations are named in Schedule D and are responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public, and are ordinarily required to conduct their operations without appropriations.

212. The following paragraphs are concerned with agency and proprietary corporations to which sections 77 to 88 of the Act apply and certain other Crown corporations which have not been named in any of the Schedules to the Act.

213. Section 85 of the Act requires each corporation to prepare, in respect of each financial year, a balance sheet, a statement of income and expense and a statement of surplus containing such information as, in the case of a company incorporated under the Canada Corporations Act, R.S., c.53, is required to be laid before the company by the directors at an annual meeting.

214. Section 87 of the Act requires the auditor of a Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the corporation and to state in his report whether in his opinion:

(*a*) proper books of account have been kept by the corporation;

(*b*) the financial statements of the corporation

- (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
- (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and
- (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and

(*c*) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation.

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

215. Section 87 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and section 85 directs that such annual report be laid before Parliament by the appropriate Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume III of the Public Accounts.

216. The Auditor General is the auditor of the following Crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1967:

Corporation	Class	Reporting Minister
Atomic Energy of Canada Limited	Agency	Energy, Mines and Resources
Canada Deposit Insurance Corporation	Proprietary	Finance
Canadian Arsenals Limited	Agency	Industry
Canadian Broadcasting Corporation	Proprietary	Secretary of State
Canadian Commercial Corporation	Agency	Industry
Canadian Corporation for the 1967 World Exhibition		Trade and Commerce
Canadian Film Development Corporation		Secretary of State
Canadian Livestock Feed Board	Agency	Forestry and Rural Development
Canadian National (West Indies) Steamships, Limited	Agency	Transport
Canadian Overseas Telecommunication Corporation	Proprietary	Transport
Canadian Patents and Development Limited	Agency	Chairman of the Committee of the Privy Council on Scientific and Industrial Research
Centennial Commission	Agency	Secretary of State
Cornwall International Bridge Company Limited	Proprietary	Transport
Crown Assets Disposal Corporation	Agency	Industry
Defence Construction (1951) Limited	Agency	National Defence
Eldorado Aviation Limited	Proprietary	Energy, Mines and Resources
Eldorado Mining and Refining Limited	Proprietary	Energy, Mines and Resources
Export Credits Insurance Corporation	Proprietary	Trade and Commerce
Farm Credit Corporation	Proprietary	Agriculture
The National Battlefields Commission	Agency	Indian Affairs and Northern Development
National Capital Commission	Agency	Public Works
National Harbours Board	Agency	Transport
Northern Canada Power Commission and subsidiary companies	Agency	Indian Affairs and Northern Development
Northern Ontario Pipe Line Crown Corporation		Energy, Mines and Resources

Corporation	Class	Reporting Minister
Northern Transportation Company Limited and subsidiary companies	Proprietary	Indian Affairs and Northern Development
Polymer Corporation Limited and subsidiary companies	Proprietary	Industry
The St. Lawrence Seaway Authority	Proprietary	Transport
The Seaway International Bridge Corporation, Ltd.	Proprietary	Transport

217. Although a firm of chartered accountants was appointed the auditor of the Canadian Dairy Commission, the Canadian Dairy Commission Act, 1966-67, c.34, requires all cash transactions of the Commission to be recorded in the Consolidated Revenue Fund and the Auditor General has examined these transactions under the requirements of section 67 of the Financial Administration Act (see paragraph 227).

218. No funds were paid over to the Company of Young Canadians during the year but the Company took over administration of funds provided under Privy Council Vote 10 for "a pilot program, undertaken by volunteers, to advance social and economic development in community affairs". The expenditures from this appropriation were examined by the Auditor General under the provisions of section 67 of the Financial Administration Act (see paragraph 234). With effect from April 1, 1967 a firm of chartered accountants has been appointed the auditor of the Company.

219. Since the Auditor General has not been appointed the auditor or the joint auditor of the following Crown corporations and public instrumentalities their accounts were not examined by him during the year:

Corporation or Instrumentality	Class	Reporting Minister
Air Canada	Proprietary	Transport
Bank of Canada		Finance
Canadian National Railways	Proprietary	Transport
The Canadian National Railways Securities Trust	Proprietary	Transport
The Canadian Wheat Board		Finance
Central Mortgage and Housing Corporation	Proprietary	Hon. J. R. Nicholson
Industrial Development Bank		Finance

In its Eleventh Report 1966-67 the Public Accounts Committee again repeated its recommendation that the Auditor General be appointed the auditor or the joint auditor of these corporations or instrumentalities (see Appendix 1, items 27 and 48).

220. The paragraphs that follow deal with the various corporations audited by the Auditor General. In each case an introductory comment describes briefly the origin of the corporation and the nature of its activity, and this is followed by comments regarding the Crown's equity in the corporation, a summary of the operations for the year in com-

parison with the preceding year, and any other matter which might be of interest to the House of Commons.

221. *Atomic Energy of Canada Limited.* This Company was incorporated in 1952 under the Canada Corporations Act, R.S., c.53, pursuant to authority contained in the Atomic Energy Control Act, R.S., c.11, to carry out research and development in nuclear power technology and allied fields and to promote uses of atomic energy.

The head office of the Company is in Ottawa. Nuclear reactors and research and development laboratories are maintained at Chalk River, Ont., and at the Whiteshell establishment in Manitoba. Shopping centres, housing, staff hotels, and hospitals at Deep River, Ont., and Pinawa, Man., were constructed for the employees of the Chalk River nuclear laboratories and the Whiteshell establishment. A Power Projects group, located in Toronto, is responsible for the engineering, development, construction and management of nuclear power generating projects. Radioisotopes produced in the Company's reactors, and equipment designed and built by the Company to use these radioisotopes, are marketed throughout the world.

A nuclear power demonstration station at Rolphton, Ont., built as a co-operative project by the Company, the Hydro-Electric Power Commission of Ontario and Canadian General Electric Company Limited, came into operation in 1962. Canada's first full-scale nuclear power generating station, completed in March 1967, was constructed by the Company in co-operation with the Hydro-Electric Power Commission of Ontario, at Douglas Point, Ont. The Company is also sharing with the Hydro-Electric Power Commission of Ontario and the Province of Ontario in the capital cost of a nuclear power generating station being constructed at Pickering, Ont. Upon completion ownership will vest in the Hydro-Electric Power Commission of Ontario with the Company's share of the cost to be repaid in accordance with an agreed formula. During the year two new projects were undertaken, namely the construction of the Gentilly nuclear power station near Trois-Rivières, Que., which is being built in co-operation with the Quebec Hydro Electric Commission and, under specific parliamentary authority, the construction of transmission lines in connection with the Nelson River power project in accordance with an agreement between Canada and Manitoba.

The accumulated costs of the Company's research facilities at Chalk River, Rolphton, Toronto and Whiteshell, charged to research expense and financed by parliamentary appropriations, amounted to $202,547,000 at March 31, 1967. The costs of the Douglas Point generating station and the Company's share of the Pickering generating station amounting to $73,598,000 and $9,062,000, respectively, at March 31, 1967, have been financed by loans from Canada.

The Crown's equity in the Company at March 31, 1967 totalled $116,185,000 comprising: loans for the Douglas Point generating station, $73,596,000, Pickering generating station, $8,706,000, Gentilly nuclear power station, $2,503,000, housing projects and an engineering design building, $13,113,000, and the Nelson River transmission line, $1,007,000; capital stock, $15,000,000; and retained earnings, $2,260,000.

A comparative summary of income and expense for the past two years follows:

	Year ended March 31	
	1967	1966
Research program—		
Operating expense	$ 55,495,000	$ 45,578,000
Gross income from housing accommodation, hospitals, engineering services, sales of steam, etc.	7,804,000	5,888,000
Excess of expense over income, provided for by parliamentary appropriations	$ 47,691,000	$ 39,690,000
Capital expenditures provided for by:		
Parliamentary appropriation	$ 10,292,000	$ 12,977,000
Retained earnings	3,613,000	1,277,000
	$ 13,905,000	$ 14,254,000
Commercial operations—		
Income	$ 8,312,000	$ 6,656,000
Expense—		
Cost of sales	3,829,000	2,954,000
Research, selling and administration	4,122,000	3,427,000
	7,951,000	6,381,000
Excess of income over expense	$ 361,000	$ 275,000

The increase of $9,917,000 in research operating expense resulted from a continued expansion in the activities of the Company and an increase in costs of goods and services, mainly: salaries and wages, including employee benefits, $4,580,000; materials and supplies, $1,173,000; research and development contracts, $1,105,000; and professional and special services, $831,000.

222. *Canada Deposit Insurance Corporation.* This Corporation, incorporated under the Canada Deposit Insurance Corporation Act, 1966-67, c. 70, is administered by a Board of Directors consisting of a chairman appointed by the Governor in Council, and the persons who from time to time hold, respectively, the offices of the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Insurance and the Inspector General of Banks. Section 8 of the Act declares the objects of the Corporation to be:

(*a*) to provide, for the benefit of persons having deposits with member institutions, insurance (herein referred to as "deposit insurance") against the loss of part or all of such deposits by making payment to such persons to the extent and in the manner authorized by this Act;

(*b*) to provide the deposit insurance required by this Act for federal institutions and to enter into contracts of deposit insurance with provincial institutions;

(c) to examine into the affairs of member institutions for the purpose of obtaining information relative to deposit insurance; and

(d) to accumulate, manage and invest a deposit insurance fund and any other funds accumulated as the result of its operations.

The Corporation did not have any financial transactions during the year and as a consequence no financial statements were prepared.

223. *Canadian Arsenals Limited.* This Company, with its head office in Ottawa, was incorporated under the Canada Corporations Act, R.S., c.53, pursuant to authority contained in the Department of Reconstruction Act, 1944, *1944-45, c.18*. The main objects of the Company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and equipment, including the maintenance of physical facilities and manufacturing skills so that the operations carried on by the Company may be expanded on short notice.

Except for a minor increase in 1961-62, there has been a steady decline in sales from \$80 million in 1954-55 to \$7 million in 1966-67. During 1966-67, the Dominion Arsenal Division ceased operations when the Department of Defence Production sold the Val Rose plant near Valcartier, Que., to private interests (see paragraph 63) and leased to them the Louise Basin plant at Quebec, Que. At March 31, 1967 the Company was the custodian of and operated two Crown-owned plants the cost of which was \$34.6 million.

At March 31, 1967 the Company held a working capital advance of \$5,000,000 and advances totalling \$925,000 from the Department of National Defence in respect of purchases.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1967	1966
Income—		
Sales	\$ 7,004,000	\$ 7,280,000
Miscellaneous	471,000	383,000
	7,475,000	7,663,000
Expense—		
Cost of sales including indirect labour and other overhead absorbed	6,714,000	6,811,000
Indirect labour and other overhead not absorbed in cost of sales	1,090,000	2,011,000
Plant shut-down costs	210,000	17,000
Administration	294,000	319,000
	8,308,000	9,158,000
Excess of expense over income	\$ 833,000	\$ 1,495,000

The amount of $833,000 required to meet the excess of expense over income was provided by Department of Defence Production Vote 40.

Plant shut-down costs of $210,000 consist mainly of termination pay totalling $200 000 made to employees of the Val Rose plant when that plant was sold on December 1 1966.

224. *Canadian Broadcasting Corporation.* This Corporation, established by Th Canadian Broadcasting Act, 1936, *1936, c. 24,* superseded by the Broadcasting Act, 1958 c. 22, operates national television and radio broadcasting services and administers an in ternational shortwave service on behalf of Canada. The head office is in Ottawa an regional offices are located in St. John's, Halifax, Quebec, Montreal, Ottawa, Toront Winnipeg, Edmonton, and Vancouver.

Prior to 1964-65 the Corporation derived funds for both its capital and operatin requirements in excess of advertising revenue, from grants provided by parliamentar appropriations. For the past three years, however, funds for capital requirements hav been provided by means of loans from Canada. Loan indebtedness at March 31, 196 amounted to $26,705,000 of which $1,371,000 was repaid in 1966-67. Additional loans i 1966-67 amounted to $30,381,000 so that $55,715,000 was outstanding at March 31, 1967 Each loan is repayable in 20 equal annual instalments with interest at rates varying fro $5\frac{1}{4}\%$ to 6% per annum (see paragraph 68).

At March 31, 1967 the Crown's equity in the Corporation amounted to $92,133,00 represented by working capital of $15,142,000 (including an unspent balance of $142,00 with respect to capital loans) and the net book value of capital assets amounting t $76,991,000.

Our statutory report to the Secretary of State dated May 29, 1967 contained a quali fication in respect of a resolution by the Board of Directors granting a retiring allowanc to the Vice-President equivalent to one year's salary. In our opinion, this was not withi the competence of the directors of the Corporation and payment of the retiring allow ance purported to be granted thereby was not within the powers of the Corporation und the Broadcasting Act. Furthermore, the amount paid should have been included in th remuneration of directors appearing in Note 3 to the financial statements.

The Board of Directors also passed the following resolution:

> That approval be given to provide the following early retirement benefits to th Corporation's President, Vice-President and other vice-presidents in case of involunta separation or demotion with loss of pay, other than through sickness and dismissal for caus after five years of CBC service, a gratuity equivalent to one month's pay for each tw years of CBC service up to a maximum of one year's salary at the rate in effect at the tin of such early retirement. This allowance will replace the retirement gratuity provided und CBC rules and regulations for this purpose.

It is our opinion that this resolution, to the extent that it purports to grant gratuiti to the President and to the Vice-President of the Corporation, is also not within th competence of the Board of Directors of the Corporation. However, no gratuities

the nature contemplated by this resolution were paid during the year ended March 31, 1967.

The Corporation has had a pension plan for its employees in effect since 1943. In December 1960 the Board of Directors, under authority of section 26(2) of the Broadcasting Act, approved establishment of a new CBC Pension Plan effective September 1, 1961. Briefly, this plan provides for benefits equivalent to 2% of the highest average annual salary, received during any period of five consecutive years during the last ten years of service, for each year of service up to a maximum of 35 years. Provision is also made for disability and death benefits, benefits accruing under the former pension plan, integration with the Canada Pension Plan, etc.

At its meeting on March 10, 1967, the Board of Directors passed By-law 18 establishing a "Supplement to CBC Pension Plan" permitting additional pensions for the President, Vice-President and a number of the senior officers of the Corporation with effect from December 8, 1966. These beneficiaries are defined as officers appointed by the Governor in Council to serve full-time as executive officers or directors of the Corporation or those appointed by the Corporation to assume responsibility for major functional or operational areas of the Corporation's activities. At March 31, 1967 the positions referred to consisted of those of the President, Vice-President and the following ten senior executive officers of the Corporation:

Vice-president, Engineering
Vice-president, Finance
Vice-president, Administration
Vice-president, Planning
Vice-president, Programming
Vice-president and General Manager Network Broadcasting (English)
Vice-president and General Manager Network Broadcasting (French)
Vice-president and General Manager Regional Broadcasting
General Manager, Caribbean Project
Assistant to the President

By-law 18 was later amended to permit the payment of supplementary pension benefits "to any other person designated by the Corporation as an officer for the purposes of this supplement".

The features of the "Supplement to CBC Pension Plan" which give rise to the additional pension benefits payable to these senior officers are as follows:

(1) the salary upon which the pension is based is the salary at the date of retirement; and
(2) provided the officer has five years' continuous service immediately prior to his retirement date, the length of service taken into account in computing the pension is 15 years or the actual length of service to a maximum of 30 years, whichever is greater.

The cost of these additional benefits is to be borne entirely by the Corporation.

The only payment in this respect during the year involved an expenditure of $23,451 for the purchase of a supplementary pension of $1,874 per annum for the Vice-President when he retired from the Corporation on February 28, 1967.

A summary of the source and disposition of the Corporation's funds in 1966-67 follows:

Source—		
Parliamentary appropriations:		
Operating grant	$ 112,403,000	
Loans for capital expenditures	30,381,000	
Working capital advances	6,000,000	
	148,784,000	
Advertising revenue	35,153,000	
Depreciation	7,013,000	
Miscellaneous	1,402,000	$ 192,352,000
Disposition—		
Total operating expense	$ 154,241,000	
Repayment of capital loans	1,371,000	
Additions to capital assets	30,641,000	
	186,253,000	
Increase in working capital	6,099,000	$ 192,352,000

The increase in working capital is reflected by increases in: programs, rights and supplies, $8,120,000; cash, $473,000; and other current assets, $261,000; offset by an increase in accounts payable and accrued liabilities, $2,755,000.

The following is a summary of the net cost of operations for the past two years:

	Year ended March 31	
	1967	1966
Expense—		
Cost of production and distribution:		
Programs	$ 98,002,000	$ 85,657,000
Network distribution	12,149,000	11,536,000
Station transmission	5,906,000	5,510,000
Payments to private stations	5,010,000	4,591,000
Commissions to agencies and networks	4,144,000	3,945,000
	125,211,000	111,239,000
Operational supervision and services	13,062,000	10,876,000
Radio and television broadcasting services at Canadian Universal and International Exhibition, Montreal, 1967	2,691,000	301,000
Emergency broadcasting	931,000	887,000
	141,895,000	123,303,000
Selling and general administration	10,143,000	9,135,000
Interest on loans to finance the acquisition of capital assets	2,203,000	1,009,000
	154,241,000	133,447,000
Income—		
Advertising revenue, etc	36,196,000	34,358,000
Net cost of operations	$ 118,045,000	$ 99,089,000

The parliamentary grant of $112,403,000, Canadian Broadcasting Corporation Vote 1, provided for the net expense of $118,045,000 as shown above, and an amount of $1,371,000 required for repayment of capital loans, less depreciation of $7,013,000 which was recorded for cost ascertainment purposes.

There was an increase in almost every classification of expenditure. Salaries and wages increased by $10,514,000 due mainly to: the implementation of wage increase provisions of collective bargaining agreements, $5,409,000; an increase of 824 in the number of permanent employees, $2,250,000; and overtime, $2,472,000. Other classifications in which there were substantial increases were: payments with respect to performers' fees, authors', composers' and other rights, $3,528,000; staging and other production costs, $2,370,000; recording and film processing, $1,694,000; film purchases and rentals, $1,655,000; and interest on capital loans, $1,194,000. These increases were to a large extent due to the conversion of the Corporation's television broadcasting facilities to color and to preparation for Centennial participation.

Loans by Canada to finance the acquisition of capital assets amounted to $30,381,000. An unexpended balance of $43,000 remained from loans obtained the previous year and $359,000 was realized on sale of assets. The sum of $30,641,000 was expended, leaving a balance at March 31, 1967 of $142,000. Major categories of capital expenditure included: color television equipment and facilities at various locations, $10,500,000; broadcast pavilion at the 1967 World Exhibition, $6,000,000; Centennial technical facilities, $3,350,000; Place Radio Canada, Montreal, $1,900,000; television studios and offices, Quebec City, $750,000; television studios, Ottawa, $500,000; land for television studios, Vancouver, $450,000; and radio studios and offices, Fredericton, $450,000.

The accumulated cost, $123,024,000, of capital assets included $13,331,000 expended during the past eight years in connection with the planned consolidation of facilities in Montreal, Ottawa, Toronto, Winnipeg and Vancouver. The Corporation's estimate at March 31, 1967 of the future cost of consolidation of facilities was $162,058,000 of which, subject to the provision of funds by Parliament for the purpose, approximately $5,576,000 will be expended during the year ending March 31, 1968 and $156,482,000 in subsequent years.

In our Reports to management and to the House in recent years, we have commented on the Corporation's physical inventory of its capital assets. This inventory was completed in July 1967 and substantially reconciled with the inventory records but the necessary adjustments of the accounts remain to be made.

In previous Reports (1966, paragraph 55) we have noted that the cost of programs included payments to employees for scheduled hours which were in excess of the actual hours of attendance during daily or weekly tours of duty. From a special study of certain payrolls, we estimated that these payments amounted to $450,000 in 1964-65. We have not made similar examinations of the 1965-66 or 1966-67 payrolls but have confirmed that the pertinent clauses in the union agreements under which these payments were made have been continued in subsequent union agreements and that the situation continues to exist. (See paragraph 60 of this Report.)

Early in 1967 the Corporation entered into contracts with three hotels in the City of Montreal to ensure accommodation for its personnel travelling to Montreal on business. This accommodation remained unoccupied 24%, 46% and 66% of the time. The contract with the hotel having an unoccupied rate of 46% was terminated on May 31, 1967 and a termination charge of $18,900, equal to one month's rent, was paid. The cost of the unoccupied accommodation for the period January 1 to June 20, 1967 has amounted to $104,000 of which approximately $37,500 pertains to the period January 1 to March 31, 1967. (See paragraph 169, item 1, of this Report).

The cost of programs available for advertising and advertising revenue earned thereon were shown in a note to the financial statements as follows:

	1966–67	1965–66
Programs which carried advertising	$ 35,338,000	$ 33,710,000
Programs available but which did not carry advertising	28,243,000	22,287,000
Program and related costs (exclusive of operational supervision, selling and general administration)	$ 63,581,000	$ 55,997,000
Advertising revenue (gross)	$ 35,153,000	$ 33,563,000

The net cost of programs with advertising potential in 1966-67 was therefore $28,428,000 which was financed by the parliamentary grant.

Expenditures incurred in connection with future programs are recorded as current assets of the Corporation until such time as the programs are presented. These assets were as follows:

	March 31, 1967	March 31, 1966
Programs completed and in process of production	$ 10,790,000	$ 4,878,000
Film and script rights	3,974,000	2,322,000
	$ 14,764,000	$ 7,200,000

The increases in 1967 were due mainly to the inclusion of special programs, many in color, to be broadcast during the Centennial year.

The balances shown in the above tabulation are after giving effect to the following write-offs:

	1966–67	1965–66
Programs completed and in process of production—cost of programs which were unsuitable because of technical difficulties, scheduling changes, pre-emptions, inferior quality, etc.	$ 217,000	$ 521,000
Film rights—unsuitable, inferior quality, expiry of right	68,000	209,000
Script rights—unsuitable, inferior quality, expiry of right	21,000	74,000
Engineering and production supplies—mostly obsolete film	14,000	36,000
	$ 320,000	$ 840,000

We also examined the accounts and financial statements of the CBC Pension Board of Trustees and reported separately to the Trustees under date of May 18, 1967. An actuarial examination of the CBC Pension Plan as at March 31, 1964 indicated an unfunded actuarial liability of $6,682,000 in respect of future benefits payable. A subsequent analysis by another actuary indicated that integration with the Canada and Quebec pension plans had reduced the unfunded actuarial liability to approximately $5.5 million. An actuarial examination of the Plan as at December 31, 1966 is presently in progress.

In its Fifth Report 1964-65, the Public Accounts Committee made the following recommendation concerning findings of the Royal Commission on Government Organization, which has not yet been implemented (see Appendix 1, item 10):

> The Committee recommended that the Secretary of State table an official memorandum in the House presenting the Corporation's views and its replies to each of the matters dealt with by the Royal Commission in its Report 19 and that this be done before the estimates of the Corporation are considered by the House.

225. *Canadian Commercial Corporation.* This Corporation which was established in 1946 by the Canadian Commercial Corporation Act, R.S., c.35, provides procurement services in Canada for the governments of other countries and for international organizations. During the year $203 million was expended by the Corporation on behalf of its customers as compared with $155 million in the preceding year.

The Crown's equity in the Corporation at March 31, 1967 amounted to $10,397,000, consisting of a $10,000,000 working capital advance, a $174,000 reserve for United States exchange, and a $223,000 reserve for contingencies.

A comparative summary of the Corporation's operations for the past two years follows:

	Year ended March 31	
	1967	1966
Income—		
Interest earned	$ 129,000	$ 98,000
Purchase surcharges	2,000	106,000
	131,000	204,000
Expense—		
Salaries	—	17,000
Other	—	1,000
		18,000
Excess of income over expense	$ 131,000	$ 186,000

In 1966 the Board of Directors decided that for the 1967 and subsequent fiscal years there would be no surcharge on purchases for any customer. There will therefore be no further income from surcharges after existing agreements providing for surcharges are completed.

In previous Reports we have noted that the Department of Defence Production has been providing purchasing and accounting services free of charge to the Corporation. With the implementation of the Board of Directors' decision that the management and staff should be provided by the Department of Defence Production and the functions of the Corporation transferred to and performed by that Department, the provision of free services has reached the point where this year all expenses have been met from Department of Defence Production Vote 1. The Department of Defence Production estimated the value of its purchasing, accounting and other services provided free to the Corporation at $2,000,000, and the value of major services provided without charge by other government departments at $400,000. Taking these costs into account, the net cost of operating the Corporation for the year ended March 31, 1967 was $2,269,000.

In previous Reports we have suggested that the cost of services now being absorbed by the Department of Defence Production should be charged to the Corporation to be offset in part by corporate revenues with the resulting deficit being provided for by means of a parliamentary appropriation. This suggestion has been adopted for 1967-68 and an amount of $2,058,000 has been provided for this purpose by Department of Defence Production Vote 50.

Increases in advances and progress payments to suppliers financed by the Corporation necessitated an additional advance to the Corporation of $4.5 million during the year.

226. *Canadian Corporation for the 1967 World Exhibition.* This Corporation was established by the Canadian Corporation for the 1967 World Exhibition Act, 1962-63, c. 12, for the purposes of planning, organizing, holding and administering the Canadian Universal and International Exhibition, Montreal, 1967. An Act respecting the Canadian World Exhibition, passed by the Quebec Legislature in 1963, provides authority for the Province of Quebec and the City of Montreal to share with the Government of Canada in the financing of the Corporation.

The Corporation consists of a Commissioner General, a Deputy Commissioner General and fourteen other directors appointed by the Governor in Council, seven of whom are appointed on the recommendation of the Lieutenant-Governor in Council of the Province of Quebec.

Section 17 of the Act requires that the accounts and financial transactions of the Corporation be audited by the Auditor General of Canada and the Quebec Provincial Auditor. The auditors are to report annually in a manner similar to that required by the Financial Administration Act in respect of other Crown corporations.

In our 1966 Report we referred to an agreement concluded on January 18, 1963 by Canada, Quebec and Montreal confirming their acceptance of the legislation establishing and governing the Corporation and outlining certain "settlements" between the Corporation and the three governments to be concluded after the closing of the Exhibition. As the clauses relating to these settlements are worded in vague and general terms, the Corporation wrote to the three governments in September 1966 recommending that the exact intent should be precisely stated in order to avoid complications in understanding and interpretation. A committee consisting of representatives of the Corporation and the

three governments first met on April 6, 1967 to deal with this matter. Although the committee has held several meetings since that date, it has not yet reported.

The original overall plan for the Exhibition, dated December 20, 1963, which indicated an estimated deficit of $47,534,000, has since been revised six times. The sixth revision dated June 30, 1967 was approved by the Governor in Council on September 28, 1967, and by the Lieutenant-Governor in Council on October 11, 1967, on the basis of the following estimates:

Expenditure—		
Capital	$ 230,293,000	
Operating	201,612,000	
		$ 431,905,000
Income—		
Sponsorship	11,000,000	
Revenue	136,134,000	
Salvage value	7,396,000	
Estimated market value of permanent assets remaining at close of Exhibition	66,710,000	
		221,240,000
Estimated deficit		$ 210,665,000

We understand that the Corporation is preparing a further revised overall plan to ·eflect a more accurate estimate of income and expenditure based on the operating ·xperience gained during the Exhibition.

Under the authority of the federal and provincial legislation, $20 million has been)aid by Canada, $15 million by Quebec and $5 million by Montreal, to the Corporation .s grants for the conduct of its business. The Corporation has since borrowed additional unds, with the approval of the Minister of Finance and the Minister of Finance of)uebec, on the security of notes of the Corporation. These securities were issued at rates f interest and subject to terms and conditions approved by the Governor in Council and he Lieutenant-Governor in Council and are jointly guaranteed by Canada and Quebec. 3orrowings by the Corporation pursuant to these arrangements totalled $175,000,000 t March 31, 1967 and had increased to $202,500,000 at November 30, 1967. These dvances have been made by Canada under the authority of parliamentary appropriaions of the Department of Finance.

As already noted, the net cost of the Exhibition was estimated at June 30, 1967 at 211 million. Since the major portion of this cost has been financed by loans from Canada, dditional grants will be required to provide the Corporation with the cash resources ecessary to repay its indebtedness to Canada. A more precise determination of the size f the grants required to be made for this purpose by Canada, Quebec and Montreal will ot be available until the Corporation completes its 1967 accounts at December 31, 1967. hese accounts will include the operating period of the Exhibition from its opening on pril 29 to its closing on October 29.

Section 15 of the Act requires the Corporation to submit annually for approval a capital and an operating budget to the Minister designated to act as Minister for the Exhibition and to the Minister of Finance, as well as to the Minister of Industry and Commerce of Quebec and the Minister of Finance of Quebec. The first mentioned Minister is required to lay the approved capital budget before Parliament. The approved 1966 capital budget provided for expenditures of $117,622,000 while actual expenditures amounted to $129,515,000 resulting in the budget being over-expended by $11,893,000 without further approval having been obtained. The over-expenditure resulted largely from additional claims being received for the Theme Pavilions and Habitat '67.

Details of capital expenditures for the year and net cumulative totals to December 31, 1966 are summarized below:

	1966	Cumulative to December 31, 1966
Buildings and special structures	$ 68,703,000	$ 83,992,000
Transit system	18,897,000	24,764,000
La Ronde	17,115,000	18,859,000
Landscape development	7,142,000	8,640,000
Utilities	4,118,000	9,215,000
Roads and bridges	3,911,000	23,193,000
Construction in progress and materials	3,801,000	4,553,000
Parking lots	3,346,000	3,561,000
Site preparation	928,000	2,675,000
Temporary construction facilities	595,000	879,000
Special engineering studies	329,000	2,020,000
Furniture, equipment and leasehold improvements, less depreciation	630,000	815,000
	$ 129,515,000	$ 183,166,000

For purposes of comparing operating expenditures with the 1966 operating budget of $30,283,000, the latter has been adjusted to $35,993,000 to cover commissions on sale of admission passports and bonus books originally deducted from revenue in the approved budget and distributors' advertising and promotion allowance originally included in 1967 expenditures. The net costs of operations for the year totalled $35,664,000 and are summarized together with the cumulative totals to December 31, 1966 as follows:

	1966	Cumulative to December 31, 1966
Administration costs—		
Personnel expenses:		
Salaries	$ 8,874,000	$ 18,818,000
Travel expenses and representation fees	584,000	1,345,000
Automobile	171,000	306,000
Official visits	123,000	295,000
Sundries	76,000	252,000
	9,828,000	21,016,000

	1966	Cumulative to December 31, 1966
Administrative:		
Telephone and telegraph	$ 430,000	$ 792,000
Administration services	365,000	672,000
Stationery and supplies	341,000	601,000
Rent	217,000	1,054,000
Architectural and engineering supplies	177,000	328,000
Office furniture and equipment rental and maintenance	112,000	234,000
Postage	86,000	172,000
Translation	83,000	240,000
Legal fees	73,000	226,000
Sundries	161,000	422,000
	2,045,000	4,741,000
Advisory Committee travel and subsistence	103,000	306,000
Other	517,000	956,000
Advertising and publicity costs—		
Consumer advertising	4,670,000	5,312,000
Information	2,004,000	2,961,000
Foreign advertising	1,151,000	1,151,000
Displays	904,000	1,153,000
Sundries	123,000	546,000
	8,852,000	11,123,000
Operating costs, site services—		
Building and ground maintenance	2,095,000	2,276,000
Security and protection	1,504,000	1,727,000
La Ronde	568,000	631,000
Information services	459,000	490,000
Operating services	316,000	316,000
Concessions and licensing	194,000	194,000
Performing arts program	170,000	170,000
Transit systems	167,000	167,000
Medical services and supplies	118,000	163,000
Utilities	101,000	101,000
Sundries	163,000	163,000
	5,855,000	6,398,000
Commission on sale of admission passports and bonus books	4,792,000	4,792,000
Interest on notes payable	3,552,000	3,746,000
Total costs	35,544,000	53,078,000
Amortization and depreciation	348,000	852,000
	35,892,000	53,930,000
Revenue earned	228,000	364,000
Net cost of operations	$ 35,664,000	$ 53,566,000

In our 1965 Report we drew to the attention of the House certain expenditures and practices which, in our opinion, were inconsistent with those usually followed by other Crown corporations and agencies. We also mentioned that these matters had been drawn to the attention of the Corporation's management and the Board of Directors who had advised us that the expenditures in question were necessary to the Corporation. Our examination of the accounts for the past two years disclosed the continued existence of these practices as well as further increases in their cost to the Corporation. Brief details are as follows:

(1) Car rentals. The Corporation has supplied vehicles to a number of employees and senior officers for personal as well as business use with the officers and employees concerned each reimbursing the Corporation $30 per month for the personal use of the vehicles. Initially all vehicles were leased but during the past two years the Corporation has used an increasing number of "courtesy" cars from three leading manufacturers for which the Corporation was responsible for operating costs only. Management has consistently taken the view that, except in a few instances, all cars were "pool" cars. From the audit standpoint, the "pool" car concept presupposes a central control over all vehicles, as well as trip logs covering vehicle movements and periodical reports on mileage covered and service costs. Such procedures have never been adopted, with the result that each vehicle tended to be allocated to and used by one officer or employee as the case may be. The number of vehicles in use and the operating cost including rental payments, parking costs and gasoline for each of the years 1963 to 1966 are as follows:

	1963	1964	1965	1966
Vehicles leased	15	33	36	36
Courtesy cars	—	—	16	98
Total vehicles	15	33	52	134
Operating cost	$ 2,000	$ 54,000	$ 91,000	$ 171,000

(2) Relocation expenses. In several cases relocation expenses involving substantial moving, hotel and living expenses of newly-appointed senior officers and employees over extended periods would not have qualified for payment under the regulations laid down by the federal or provincial Treasury Boards. From the inception of the Corporation to December 31, 1966, approximately $150,000 has been spent on removal expenses for newly-appointed employees. Six cases involved expenditures in excess of $4,000 each and, in one instance during 1966, $5,000 was paid for the shipment by air express of the employee's effects from overseas.

(3) Special insurance policy. Under this policy the Corporation continues to pay the cost of insuring the lives of a number of its senior employees. In all cases the coverage is $100,000 and the estates of the employees are the beneficiaries under the policies. The cost of this insurance to the Corporation was $1,000 for 12 officers in 1963; $3,000 for 48 officers and employees in 1964; $4,000 for 65 officers and employees in 1965; and $6,000 for 92 officers and employees in 1966.

(4) Plan of organization. The Corporation's approved plan of organization shows the number of officers and employees required, the proposed classes of positions and the

salary range for each class established with the approval of the federal and provincial Treasury Boards and the Public Service Commission of Canada. In numerous instances since the inception of the Corporation initial appointments have been made at salary rates higher than the established minimum and in others maximum rates were paid either immediately or within six months after appointment. A number of senior employees in receipt of salaries of $10,000 per annum or more had received increases ranging from 10% to 50%, and in six cases more than 50%, three being in 1964, one in 1965, and two in 1966—one of which was 92%.

In our 1966 Report (paragraph 194) we referred to an authorized expenditure of $2,175,000 for sewage disposal units. On August 1, 1965 the Corporation entered into an agreement with the City of Montreal whereby the Corporation would construct the units, the ownership of which would be vested in the City, with the latter reimbursing the Corporation for the total cost of construction. The agreement further provided that the Corporation would pay all operating expenses and a rental for the use of the units equal to 60% of the cost. In determining the construction cost of the units to be billed to the City, the Corporation has included $295,000 representing the cost of lift stations. As at December 31, 1966, this amount had not been paid by the City because it considered that the lift stations were not contemplated in the work covered by the contract. This question had not been resolved at the time of our examination. We have drawn to the attention of Corporation management that correspondence between the Corporation and the City indicates that the City will receive a rebate of federal sales tax paid by the Corporation on the units. We have been assured that the actual rebate, presently estimated at $100,000, will be applied against the cost in determining the rental payable by the Corporation for these units.

Section 13 of the Act requires the Corporation to maintain accounts in chartered banks designated by the federal Minister of Finance and approved by the Minister of Finance of Quebec. Early in 1963 two chartered banks were designated as bankers for the Corporation. In October 1966, however, the Corporation, with the approval of the Governor in Council, entered into contracts for banking services with another chartered bank and a financial institution which is not a chartered bank. In our opinion, the agreements made at that time were ultra vires the Corporation since the chartered bank was not "designated by the Minister of Finance with the approval of the Minister of Finance of Quebec" as required by the Act and the financial institution, not being a chartered bank, did not qualify for designation. (See paragraph 62 of this Report.)

A number of other matters noted during our 1965 and 1966 examinations were brought to the attention of the Corporation's management and Board of Directors with the suggestion that prompt action be taken to deal with them before the Exhibition opened on April 29, 1967. These included:

(1) certain aspects of the Corporation's internal financial control that required improvement and certain important decisions that had to be taken prior to the opening of the Exhibition with respect to the procedures to be followed during the Exhibition for the handling of the substantial amounts of cash and the recording of revenues from admission passports, tickets, parking fees and other sources;

(2) a number of the procedures followed in connection with capital construction which materially weakened financial control including:

effecting amendments to contracts subsequent to the work having been completed in whole or in part without prior ascertainment of the additional costs involved;

making a substantial number of progress payments to contractors without complete verification; and

renegotiating bid prices with the lowest tenderer for modified programs without the benefit of competitive bidding;

(3) the need to develop adequate and more effective capital asset records (e.g. plant ledger) which would indicate the location, type and cost of fixed assets.

227. *Canadian Dairy Commission.* This Commission, established by the Canadian Dairy Commission Act, 1966-67, c.34 (proclaimed in force October 31, 1966) consists of a chairman and two members appointed by the Governor in Council. The objects of the Commission are to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

The Act directs the establishment of the Canadian Dairy Commission Account as a special account in the Consolidated Revenue Fund to which all moneys received are to be credited and all expenditures, except for administration expenses, are to be charged. Administration expenses are to be paid out of moneys appropriated by Parliament for the purpose.

During the five-month period ended March 31, 1967 the Commission, financed by a loan of $1,013,000 from the Minister of Finance, purchased 2,239,000 pounds and sold 1,675,000 pounds of New Zealand butter. With sales income totalling $1,031,000 and costs amounting to $823,000 a net trading profit of $208,000 resulted. An inventory of 564,000 pounds of butter at a cost value of $265,000 was held at the year-end. Administration expense for the period amounting to $38,000 was charged to Department of Agriculture Vote 65g.

The Governor in Council, by Order in Council P.C. 1966-2287 of December 9, 1966, added the Canadian Dairy Commission to Schedule C of the Financial Administration Act. Subsequently, pursuant to section 77 of the Financial Administration Act, on the recommendation of the Minister of Agriculture, the Governor in Council by Order in Council P.C. 1967-901 of May 11, 1967 designated a firm of chartered accountants as auditors of the Commission.

Under section 67 of the Financial Administration Act, the Auditor General is directed to examine the accounts relating to the Consolidated Revenue Fund and under section 70 to report annually to the House of Commons the results of his examination. It follows, therefore, that during the course of our examination of the accounts relating to the Consolidated Revenue Fund we have examined and must continue to examine the transactions relating to the Canadian Dairy Commission Account.

228. *Canadian Film Development Corporation.* This Corporation was established by the Canadian Film Development Corporation Act, 1966-67, c.78, and consists of the Government Film Commissioner and six other members appointed by the Governor in Council. The objects of the Corporation are to foster and promote the development of a feature film industry in Canada.

The Corporation did not have any financial transactions during the year and as a consequence no financial statements were prepared.

229. *Canadian Livestock Feed Board.* This Board was established in November 1966 by the Livestock Feed Assistance Act, 1966-67, c.52, and consists of from three to five members appointed by the Governor in Council. The objects of the Board are to ensure: the availability of feed grain to meet the needs of livestock feeders; the availability of adequate storage space for feed grain in Eastern Canada; and reasonable stability in, and fair equalization of, the price of feed grain in Eastern Canada and British Columbia.

The Board did not have any financial transactions during the year and as a consequence no financial statements were prepared.

230. *Canadian National (West Indies) Steamships, Limited.* The operations of this Company ceased in 1958 on the sale of its fleet of eight vessels to Cuban interests.

The Crown's equity in the Company at December 31, 1966 amounted to $553,000 represented by cash, $97,000, and a final instalment of $470,000 due under the agreement of sale, less a liability of $14,000 in respect of unclaimed matured bonds. During the year the Company earned bank interest of $2,800 and disbursed $135 for legal and other expenses.

The balance due under the agreement of sale represents the final instalment due August 19, 1963 under terms of a letter of credit confirmed by the Bank of America. Payment has continued to be prohibited by the Cuban Assets Control Regulations of the United States of America dated July 8, 1963, despite efforts of management to obtain release of the funds.

As the only remaining function of the Company is the collection of this final instalment under the agreement of sale, consideration should be given to the transfer of this account to the Crown and the surrender of the Company's charter.

231. *Canadian Overseas Telecommunication Corporation.* This Corporation was constituted in 1949 by the Canadian Overseas Telecommunication Corporation Act, R.S., c.42, to establish, maintain and operate external telecommunication services generally and to co-ordinate Canada's external telecommunication services with those of other nations.

The South-East Asia Cable System linking Australia, New Guinea, Malaysia, Singapore, Hong Kong and Guam was opened for service on March 30, 1967. In 1964 the Corporation made its initial capital contribution as a participant in the establishment of a global commercial communications satellite system which is now being developed.

Facilities of the Department of Transport are being used on a temporary basis in connection with this system pending construction of the Corporation's own ground station for which a contract is soon to be awarded.

The Crown's equity in the Corporation was $69,020,000 at March 31, 1967, an increase of $1,398,000 over the previous year, comprising advances of $49,774,000 and a surplus of $19,246,000.

The Corporation did not require any advances for capital purposes during the year and repaid $2,748,000 on advances received in prior years. Capital additions amounted to $7,593,000 and at March 31, 1967 the estimated cost of completing approved capital projects was $34,301,000 of which $17,073,000 relates to the year ending March 31, 1968.

The following is a summary of income and expense of the Corporation for the past two years:

	Year ended March 31	
	1967	1966
Income—		
Telegraph, telephone, telex, circuit rentals, etc.	$ 21,213,000	$ 17,967,000
Expense—		
Salaries, wages and employee benefits	5,070,000	4,258,000
Depreciation	5,283,000	4,828,000
Rental of circuits, etc.	2,279,000	2,178,000
Interest	2,357,000	2,524,000
Maintenance and repairs—plant and equipment	1,142,000	981,000
Other	699,000	931,000
	16,830,000	15,700,000
Estimated amount recoverable from Commonwealth Network	2,697,000	2,834,000
	14,133,000	12,866,000
Profit before income tax	7,080,000	5,101,000
Provision for income tax	3,530,000	2,540,000
Net profit	$ 3,550,000	$ 2,561,000

Income increased by $3,246,000 or 18% during the year compared with a 17% increase in the previous year. The increased revenue was due largely to a heavier volume of telephone traffic and to increased telex revenue and circuit rentals. Expenses increased by $1,130,000 or 7% while the estimated amount recoverable from the Commonwealth Network was $137,000 less than in the previous year.

232. *Canadian Patents and Development Limited.* Section 17 of the National Research Council Act, R.S., c.239, provides for the incorporation of one or more companies by the National Research Council of Canada for the purpose of exercising certain of the powers conferred upon the Council. Under this authority Canadian Patents and Development Limited was incorporated in 1947 under the Canada Corporations Act, R.S. c.53, for the purpose of making available to industry, through licensing arrangements, th

inventions and new processes developed by the Council. The services of the Company, which is located in Ottawa, are also available to government departments, publicly supported institutions and universities.

At March 31, 1967 the Crown's equity in the Company was $1,291,000, comprising capital stock of $296,000 and surplus of $995,000.

The following is a summary of the results of the Company's operations for the past two years:

	Year ended March 31	
	1967	1966
Income—		
Royalties, licensing fees, etc.	$ 393,000	$ 350,000
Less: Costs of licensing rights and related technical assistance, etc.	44,000	51,000
	349,000	299,000
Other income	72,000	70,000
	421,000	369,000
Expense—		
Promotion and development, including $70,000 prepaid promotion and development expense written off	143,000	51,000
Salaries	140,000	91,000
Patent attorneys' fees and other patenting costs	78,000	85,000
Awards to inventors	20,000	15,000
Services provided by National Research Council of Canada	20,000	20,000
Other expenses	16,000	6,000
	417,000	268,000
Net profit	$ 4,000	$ 101,000

The increased income from royalties, licensing fees, etc., is largely attributable to four icensing agreements covering preparations, compositions, processes and other inventions, vhile there was a substantial reduction in royalties received on two other inventions. The decrease in the cost of licensing rights and related technical assistance was mainly lue to a decrease in royalty proceeds required to be remitted to a British Crown corporaion, offset in part by an increase in royalties payable under an agreement with a university.

The increased cost of promotion and development, apart from prepaid promotion nd development expense written off, resulted from an increase in expenditure for work ompleted during the year under the Company's development program.

The increase in salaries resulted from an increase in staff and a general salary revi- on, while the decrease in the cost of patent attorneys' fees and other patenting costs largely attributable to an increase in the number of patent officers on the Company's aff. This resulted in an increase in the patent applications filed directly by the ompany.

The increase in the amount of awards to inventors resulted from the increased income from royalties and from an increase in the proportion of royalties which are subject to the higher rates at which awards may be computed. The increase in other expenses is chiefly accounted for by an increase in legal fees, office supplies and travel.

233. *Centennial Commission.* The Centennial Commission was established by the Centennial of Canadian Confederation Act, 1960-61, c.60, to promote interest in, and to plan and implement programs and projects relating to the Centennial of Confederation in Canada. The Commission consists of a commissioner, an associate commissioner and twelve directors, all appointed by the Governor in Council.

The following is a summary of expenses for the past two years and the cumulative figures since the establishment of the Commission:

	Year ended March 31		Cumulative to March 31, 1967
	1967	1966	
Programs and projects of national significance	$ 12,519,000	$ 7,592,000	$ 24,319,000
Grants to provinces for approved projects of a lasting nature	18,840,000	4,469,000	24,285,000
Administration expense—			
Salaries and employee benefits	1,522,000	808,000	3,105,000
Exhibits, displays and films	1,484,000	250,000	1,783,000
Professional and special services	864,000	318,000	1,316,000
Travel	212,000	134,000	453,000
Informational programs and publications	187,000	86,000	299,000
Stationery, supplies and office equipment	149,000	82,000	279,000
Accommodation	95,000	78,000	235,000
Other	370,000	147,000	648,000
	4,883,000	*1,903,000*	*8,118,000*
Total expense	$ 36,242,000	$ 13,964,000	$ 56,722,000
Total expense provided for by—			
Parliamentary appropriations	$ 36,076,000	$ 13,874,000	$ 56,391,000
Government departments which provided major services without charge	166,000	90,000	331,000
	$ 36,242,000	$ 13,964,000	$ 56,722,000

The main expenditures on "Programs and projects of national significance" in 1966-67 were incurred in respect of: Confederation Train and Caravans, $5,395,000; Performing Arts, $1,348,000; Youth Travel, $981,000; Promotion of Centennial Abroad, $677,000; Centennial Athletics, $630,000; and National Centennial Guide, $320,000.

Section 10 of the Act directs that there shall be a special account in the Consolidated Revenue Fund to be known as the Centennial of Confederation Fund to which shall be credited amounts appropriated by Parliament for purposes of the Fund. At the end of the previous year a balance of $10,555,000 was held by the Minister of Finance at credit of the Fund. $13,000,000 was added during the year and grants to the provinces for approved projects amounted to $18,840,000. A balance of $4,715,000 remained in the Fund at March 31, 1967.

As 1966-67 included the first three months of the Centennial year, the activity of the Commission increased considerably, the staff at March 31, 1967 being 342 compared with 125 at the previous year-end. Administration expense increased from $1,903,000 in 1965-66 to $4,883,000 in 1966-67 with major increases being recorded in: exhibits, displays and films, $1,234,000; salaries and employee benefits, $714,000; professional and special services, $546,000; and informational programs and publications, $101,000.

234. *The Company of Young Canadians.* The Company of Young Canadians Act, 1966-67, c.36, assented to July 11, 1966, established The Company of Young Canadians consisting of a Council composed of fifteen members, ten of whom are to be elected by volunteer-members of the Company and five to be appointed by the Governor in Council. The objects of the Company are to support, encourage and develop programs for social, economic and community development in Canada or abroad through voluntary service. There were 68 volunteers on strength and 18 in training on March 31, 1967.

Initially, "a pilot program, undertaken by volunteers, to advance social and economic development in community affairs" was administered by an interim executive director and staff under contract to the Office of the Privy Council. Subsequently, a provisional council and an executive director were appointed and took over the administration of the pilot program.

No funds were paid to the Company for the year ended March 31, 1967, Parliament having provided for the pilot program in Privy Council Vote 10. The following table shows the expense of the pilot program for the year ended March 31, 1967:

Administration and field staff salaries		$ 318,000
Travel:		
Staff	$ 88,000	
Volunteers	34,000	
Provisional council	21,000	
Consultants	12,000	
		155,000
Recruitment of volunteers		67,000
Training of volunteers		72,000
Volunteers' personal, living and other allowances		110,000
Professional and other special services		38,000
Accommodation		26,000
Stationery, supplies and equipment		26,000
Telephones and telegrams		24,000
Advertising and publicity		23,000
Research and feasibility studies		13,000
Employee benefits		9,000
Accounting services		5,000
Miscellaneous		8,000
Total expense		$ 894,000
Total expense provided for by—		
Privy Council Vote 10		$ 854,000
Government departments which provided major services without charge		40,000
		$ 894,000

Invoices totalling more than $12,000 remained unpaid at March 31, 1967 and are not included in the expenditures for the year.

Our examination of the transactions for the year was performed under the provisions of section 67 of the Financial Administration Act. By Order in Council P.C. 1967-745 of April 18, 1967 a firm of chartered accountants was appointed auditor of the Company effective April 1, 1967.

235. *Cornwall International Bridge Company Limited.* The shares of this Company are owned equally by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government corporation).

The equity of the Seaway entities in the Company at September 30, 1966 consisted of capital stock of $50,000 less a deficit of $10,000.

The Company has been in process of winding up since July 3, 1962, when it ceased to operate the toll bridge system across the St. Lawrence River between Cornwall, Ont., and Rooseveltown, N.Y. The toll bridge system is now operated by The Seaway International Bridge Corporation, Ltd., a subsidiary of The St. Lawrence Seaway Authority. The Company's one remaining capital asset, 17.6 acres of land located in the State of New York, was disposed of in the autumn of 1966. Consequently, application has been made to the Registrar General for surrender of its charter.

236. *Crown Assets Disposal Corporation.* This Corporation was established in 194 by the Surplus Crown Assets Act, R.S., c.260. With certain specified exceptions, the Corporation is responsible for the disposal of the surplus assets of all government departments and most of the Crown corporations and agencies. The Corporation has entered into agreements with Britain and the United States whereby it also disposes of surplus property held by them in Canada. The head office of the Corporation is in Ottawa, with sales offices in a number of cities across Canada.

As has been the case for a number of years, the Corporation was authorized for the 1966-67 year to retain 4% of the net proceeds of sales of lands and buildings and 10% of the net proceeds of all other sales to meet its administrative and other expenses. A summary of the Corporation's income and expense for the year together with comparable figures for the preceding year follows:

	Year ended March 31	
	1967	1966
Income—		
Portion retainable by the Corporation from net sales and other income earned	$ 1,918,000	$ 1,308,000
Expense—		
Salaries	659,000	577,000
Employee benefits	57,000	54,000
Rent	57,000	56,000
Printing, stationery and office supplies	37,000	38,000
Telephones, telegrams and postage	34,000	31,000
Travel	21,000	18,000
Data processing	15,000	2,000

	Year ended March 31 1967	1966
Office furniture and equipment	$ 14,000	$ 13,000
Legal and advertising	5,000	6,000
Sundry	1,000	2,000
	900,000	797,000
Excess of income over expense	$ 1,018,000	$ 511,000

The $610,000 increase in income was due mainly to a larger volume of sales of surplus defence property and equipment. A major portion of the $103,000 increase in expense resulted from a general salary revision and the increased cost of data processing which reflects the first full year's use of rented electronic accounting equipment installed in February 1966.

Pursuant to section 81(3) of the Financial Administration Act, the Corporation was directed to pay to the Receiver General, as of March 31, 1959 and from time to time thereafter, but at intervals of not longer than six months, all of its surplus in excess of $100,000. Consequently, the $1,018,000 excess of income over expense for the year was paid to the Receiver General, leaving the surplus unchanged at $100,000.

The equity of the Crown in the Corporation's Agency Account at March 31, 1967 was $7,298,000 compared with $5,014,000 at the end of the preceding year, and was largely represented by amounts totalling $6,500,000 receivable under long-term interest-bearing sales agreements.

The transactions in the Agency Account during the year, compared with the preceding year, are summarized as follows:

	Year ended March 31 1967	1966
Sales made on behalf of—		
Government of Canada	$ 24,952,000	$ 15,374,000
Other principals	706,000	788,000
Interest	204,000	207,000
	25,862,000	16,369,000
Less: Direct costs relating to sales	36,000	43,000
	25,826,000	16,326,000
Deduct:		
Portion retainable by the Corporation from net sales and other income earned	1,918,000	1,308,000
Additional provision for doubtful accounts	—	4,000
Remittances to the Receiver General	20,990,000	14,832,000
Other remittances	617,000	714,000
	23,525,000	16,858,000
Increase (decrease) in equity—		
Government of Canada	2,284,000	(526,000)
Other principals	17,000	(6,000)
	$ 2,301,000	$ (532,000)

The increase of $9,496,000 in sales represents an increase of $5,685,000 in sales of lands and buildings and a net increase of $3,811,000 in other sales. Five exceptionally large sales totalling $9,375,000 were completed during the year; there were no sales involving comparable amounts in the preceding year.

In its Seventh Report 1964-65 the Public Accounts Committee recommended that the sales and inspection procedures of the Corporation be revised with a view to improving sales techniques. In our 1966 Report (paragraph 200) we mentioned that the Corporation had reorganized its Commodity Sales Division and merged the former Supply Division into the Commodity Sales Division to integrate and improve inspection and sales procedures. During the year the Corporation carried out a study of its organization and marketing methods with the object of improving inspection and market analyses.

237. *Defence Construction (1951) Limited.* This Company was incorporated in 1951 under the Canada Corporations Act, R.S., c.53, pursuant to the authority in section 7 of the Defence Production Act, R.S., c.62.

The Company is responsible for awarding and supervising contracts for defence construction projects and it may also assist civilian agencies of the Government. Funds to finance projects are provided by the departments concerned, or by the United States Government for defence projects in Canada undertaken on its behalf. Expenditures on defence construction projects approved by the Company for payment by the Department of National Defence and by the United States Government increased by $3.7 million from $26.2 million in 1965-66 to $29.9 million in 1966-67.

Funds to cover the Company's net expense were provided by Department of National Defence Vote 55. The following is a summary of expense and income for the past two years:

	Year ended March 31	
	1967	1966
Expense—		
Salaries and living allowances	$ 3,265,000	$ 2,996,000
Employee benefits	240,000	219,000
Travel and removal	186,000	155,000
Other	278,000	268,000
	3,969,000	3,638,000
Income—		
Reimbursement for engineering and administrative services	1,776,000	1,674,000
Other	1,000	1,000
	1,777,000	1,675,000
Net expense	$ 2,192,000	$ 1,963,000

The increase in net expense of $229,000 is mainly attributable to increased salary rates resulting in higher salary costs of $269,000, the recoverable portion amounting to $102,000 being reflected in income.

Reporting on its study of real property, the Royal Commission on Government Organization recommended that a real property organization be established under the supervision of the Deputy Minister of National Defence and that the functions of Defence Construction (1951) Limited be transferred to this organization. As a first step, control of the Company was transferred in 1965 from the Minister of Industry to the Minister of National Defence.

As the volume of defence construction is now only one-tenth of what it formerly was and no significant increase is forecast in the next five years, a review is being undertaken at the request of the Treasury Board to determine the desirability of retaining the present corporate structure.

238. *Eldorado Aviation Limited.* This Company was incorporated in 1953 under the Canada Corporations Act, R.S., c.53, and is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Operating from headquarters in Edmonton, it provides air transportation services for its parent company and Northern Transportation Company Limited, another wholly-owned subsidiary of Eldorado Mining and Refining Limited. These two companies share the cost of operations of Eldorado Aviation Limited on a "cost per ton-mile" basis.

The equity of Eldorado Mining and Refining Limited in the Company at December 31, 1966 comprised capital stock of $28,000 and surplus of $228,000.

The following is a comparative summary of the net expense of the Company for the past two years:

	Year ended December 31	
	1966	1965
Salaries, wages and employee benefits	$ 243,000	$ 237,000
Supplies	164,000	134,000
Repairs	130,000	108,000
Hangar expense	49,000	50,000
Depreciation	29,000	51,000
Insurance	26,000	23,000
Other	29,000	30,000
	670,000	633,000
Less: Miscellaneous income	73,000	54,000
Net expense	$ 597,000	$ 579,000

The decrease in the charge for depreciation was due to the calculation of the provision on the diminishing net book value of the capital assets and to the reduction in the rate used for depreciation of aircraft from 40% in 1965 to 30% in 1966. The increases in other classifications of expense are mainly attributable to increased ton-miles flown in 1966 on freight and passenger flights.

The net expense for the year was recovered by the Company from Eldorado Mining and Refining Limited and from Northern Transportation Company Limited in the amounts of $462,000 and $135,000 respectively.

239. *Eldorado Mining and Refining Limited.* This Company was incorporated in 1945 under the Canada Corporations Act, R.S., c.53, following expropriation in 1944 of the shares of a privately-owned company. The principal functions of the Company are to produce, refine, procure and sell uranium and allied products. The head office of the Company and the Research and Development Division are in Ottawa, the Beaverlodge mine is near Uranium City, Sask., and the refinery and administrative offices are in Port Hope, Ont.

The equity of the Crown in the Company at December 31, 1966 amounted to $51,763,000, comprising capital stock of $6,586,000 and surplus of $45,177,000. A dividend of $1,000,000 was paid in December 1966.

In 1962 the Company contracted to sell to the United Kingdom Atomic Energy Authority 24,000,000 pounds of uranium concentrates between the years 1962 and 1971. At the same time, the Company contracted to purchase 20,917,000 pounds of uranium concentrates from six producers, leaving a balance of 3,083,000 pounds to be supplied from the Company's own mine. The sales contract provides for the deferment of payment on 4,800,000 pounds delivered in 1962 to 1966 until the later years of the contract period. The amount of $25,719,000 thus deferred is recoverable in equal annual instalments during the years 1971 to 1973.

All costs and expenses in connection with the procurement of concentrates from other producers are recovered and, in addition, charges (amounting to $55,000 in 1966) are made by the Company for administering and financing the program. Up to the end of the previous year, sales of concentrates procured from other producers exceeded costs and expenses by $1,169,000. During the year the excess of costs and expenses over sales amounted to $38,000 leaving a balance of $1,131,000 to be offset against deliveries in future years when costs of procurement will exceed the amount of the sales.

The Governor in Council granted authority in 1963 and 1965 for the entry into contracts between Her Majesty the Queen in right of Canada, represented by Eldorado Mining and Refining Limited, and certain other uranium producers for the purchase of uranium concentrates for stockpiling by Canada. At December 31, 1966 the Company was the custodian of uranium concentrates thus acquired at a total cost of $50,639,000. Funds for the acquisition of these concentrates were provided by parliamentary appropriations and accordingly their cost was not included in the accounts of the Company.

The following is a summary of income and expense for the past two years:

	Year ended December 31	
	1966	1965
Income—		
Sales of uranium concentrates, uranium metal and related products, and revenue from refining services	$ 14,297,000	$ 16,388,000
Expense—		
Cost of products and services sold	12,505,000	13,160,000
Scientific research	692,000	1,628,000
Depreciation	670,000	665,000

	Year ended December 31	
	1966	1965
Exploration	$ 406,000	$ 58,000
Administration, selling, municipal taxes, etc.	922,000	996,000
	15,195,000	16,507,000
Net loss from operations	898,000	119,000
Other income—		
Income arising from the financing of ore procurement program	23,000	907,000
Interest and other non-operating income (net)	1,051,000	638,000
	1,074,000	1,545,000
Net income	$ 176,000	$ 1,426,000

Sales of uranium concentrates totalled 1,988,000 pounds in 1966, compared with 2,080,000 pounds in 1965, a decrease of only 92,000 pounds. However, revenue from sales decreased by $3,723,000 since almost all deliveries in 1966 were under a contract at a price of $5.37 per pound whereas about 40% of the 1965 deliveries were sold under contracts at $10 per pound plus allowances for escalation of labour and other costs amounting to 36 cents per pound. Income from refining services and sales of special products increased by $1,632,000 in 1966, of which the most significant portion, $845,000, resulted from the refining, assaying, handling and warehousing of concentrates procured for the Canada stockpile.

The decrease of $655,000 in cost of products and services sold was due to the diminution in sales of uranium concentrates and to the fact that approximately 40% of the 1965 sales were produced in 1964 at higher production costs. These reductions, which totalled $1,996,000, were offset in part by increases of $1,341,000 in refinery operating costs, as a result of the increased activities at the refinery.

The decrease of $936,000 in scientific research expense was due largely to the curtailment of the development program for the recovery of cobalt-nickel and zirconium. Exploration expense amounting to $406,000 related mainly to surface evaluation of a group of claims in the vicinity of the mine at Beaverlodge.

The decrease of $884,000 in income arising from the ore procurement program was the result of the decrease from 2,259,000 pounds in 1965 to 93,000 pounds in 1966 in procurement of uranium concentrates from other producers under the 24,000,000 pound contract with the United Kingdom Atomic Energy Authority. The increase of $413,000 in interest and other non-operating income was due mainly to larger sums being on deposit with the Receiver General and the Company's bankers throughout the year.

No provision for income tax has been required for the past two years, the Company having no taxable income because of amounts claimed as allowances for scientific research, capital cost and depletion.

240. *Export Credits Insurance Corporation.* This Corporation was established in 1944 by the Export Credits Insurance Act, R.S., c.105, to provide insurance to Canadian exporters against the risk of non-payment by foreign buyers. The Corporation, which has its head office in Ottawa and branches in Montreal, Toronto and Vancouver, is intended to operate on a self-sustaining basis from premiums charged on contracts of insurance. However, section 21 of the Act provides that, where the Corporation is of the opinion that a proposed contract of insurance will impose upon it a liability for a term or in an amount in excess of that which the Corporation would normally undertake, the Governor in Council may authorize the Corporation to enter into the proposed contract. In the event of a loss under this section (there has been none) the moneys required to discharge the liability would be paid from unappropriated moneys in the Consolidated Revenue Fund up to a limit of $600 million.

In order to further promote Canadian exports, an amendment to the Act in 1959 introduced section 21A which permits the Corporation, with the authority of the Governor in Council, to provide long-term financing for export sales of capital goods and services. Funds for this purpose are provided out of the Consolidated Revenue Fund up to a limit of $500 million.

The Crown's equity in the Corporation at December 31, 1966 was $171,891,000 consisting of share capital of $5,000,000, capital surplus of $5,000,000, an underwriting reserve of $6,000,000 and earned surplus of $4,711,000, together with advances and accrued interest totalling $151,180,000 in respect of long-term financing of sales agreements under section 21A of the Act.

Export sales insured by the Corporation on its own account during 1966 totalled $155,000,000 on which premiums of $694,000 were earned. Export sales insured under section 21 of the Act totalled $52,000,000 and premiums amounted to $589,000, of which, on the basis authorized by the Minister of Trade and Commerce, $442,000 was remitted to the Receiver General and $147,000 was retained by the Corporation. At December 31, 1966 the liability of the Corporation for contracts of insurance totalled $455,000,000 of which $141,000,000 was for contracts of insurance entered into on its own account and $314,000,000 was for contracts entered into under section 21 of the Act.

At December 31, 1966, after six years of operation in the field of direct long-term financing of export sales under section 21A of the Act, the Corporation had agreements totalling $292,000,000. A total of $210,000,000 had been disbursed of which $36,000,000 had been repaid, leaving a balance on loan of $174,000,000. The Corporation's portion of interest and of guarantee fees earned in respect of long-term financing agreements amounted to $400,000 in the year compared with $340,000 in the previous year. Notes for $26,000,000 which mature within three years were held for the account of Export Finance Corporation of Canada, Ltd., a subsidiary of the Canadian chartered banks, to whom they had been sold. However, as the notes are unconditionally guaranteed by the Corporation, it continues to be responsible for the collection of the principal and interest.

The following is a comparative summary of operations for the past two years:

	Year ended December 31 1966	1965
Income—		
Premiums and fees earned	$ 1,441,000	$ 1,447,000
Expense—		
Salaries and employee benefits	594,000	484,000
Rents	54,000	47,000
Travel	39,000	24,000
Stationery, printing and office	37,000	41,000
Publicity	34,000	7,000
Communications	23,000	21,000
Other	59,000	55,000
	840,000	679,000
Operating income	601,000	768,000
Policyholders' claims—		
Payments	771,000	150,000
Recoveries	161,000	397,000
	610,000	(247,000)
Excess of policyholders' claims over operating income	9,000	(1,015,000)
Interest on investments	323,000	323,000
Excess of income over expense	$ 314,000	$ 1,338,000

The increase of $161,000 in expense resulted mainly from increases of $104,000 in alaries, of which approximately $43,000 was for additional staff engaged and $61,000 or salary increases, and $27,000 for publicity due to the purchase of an animated film ublicizing the Corporation's insurance services.

The following is a summary of transactions in respect of claims paid to policyholders:

Type of claim	Outstanding Jan. 1, 1966	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1966
Insolvency	$ 251,000	$ 80,000	$ 33,000	$ 29,000	$ 269,000
Default	300,000	272,000	121,000	29,000	422,000
Exchange transfer	15,000	407,000	7,000	—	415,000
Other	1,000	12,000	—	1,000	12,000
	$ 567,000	$ 771,000	$ 161,000	$ 59,000	$ 1,118,000

The large increase during the year in the amounts outstanding was mainly due to ıyments to five exporters to Uruguay because of foreign exchange transfer difficulties in

that country. The Corporation anticipates making substantial recoveries from the total outstanding amount of $1,118,000 with the amounts recovered to be recorded as income in the year in which the recoveries are effected.

The underwriting reserve, established to provide for losses on contracts of insurance entered into on the Corporation's own account, was increased during the year by a transfer of $1,000,000 from earned surplus, bringing the balance at December 31, 1966 to $6,000,000, which was equivalent to 4.3% of the Corporation's liabilities under these contracts of insurance.

241. *Farm Credit Corporation.* This Corporation was established in 1959 by the Farm Credit Act, 1959, c.43, to make, administer and supervise long-term mortgage loans to farmers. The Corporation also administers the Farm Machinery Syndicates Credit Act, 1964-65, c.29, which authorizes the making of loans to qualified syndicates of three or more farmers for the purchase of farm machinery for their co-operative use. The head office of the Corporation is in Ottawa and there are 7 branch, 31 district and 127 field offices throughout Canada.

The Government of Canada paid a further $6,150,000 into the capital of the Corporation during the year and advanced an additional $157,924,000 (net) by way of loans. At March 31, 1967 the Crown's equity in the Corporation amounted to $772,815,000 comprising: capital, $28,900,000; loans, $723,592,000 (of which $1,597,000 was in respect of the Farm Machinery Syndicates Credit Act); accrued interest on loans, $18,735,000; reserve for losses under the Farm Credit Act, $1,569,000; and retained earnings from operations under the Farm Machinery Syndicates Credit Act, $19,000.

During the year, 11,632 loans were made to farmers for a total of $234,447,000 compared with 11,049 loans amounting to $201,688,000 made in the previous year. Repayments of principal amounted to $72,271,000, an increase of $13,380,000 over the previous year. Loans outstanding at March 31, 1967, with accrued interest, amounted to $770,554,000 compared with $603,081,000 at March 31, 1966. Loans outstanding under the Farm Machinery Syndicates Credit Act amounted to $1,632,000 at March 31, 1967 compared with $902,000 at March 31, 1966.

The following is a summary of the income and expense of the Corporation for the past two years:

	Year ended March 31	
	1967	1966
Operations under the Farm Credit Act		
Income—		
Interest earnings	$ 34,160,000	$ 25,890,000
Deduct: Interest on loans from the Government of Canada	32,194,000	23,525,000
	1,966,000	2,365,000
Appraisal, supervision and legal fees	1,144,000	1,103,000
	3,110,000	3,468,000

	Year ended March 31	
	1967	1966
Expense—		
Salaries and employee benefits	$ 4,453,000	$ 3,505,000
Travel	532,000	434,000
Office accommodation	305,000	251,000
Postage, express, telephone and telegraph	118,000	101,000
Printing, stationery and office supplies	112,000	99,000
Rental and maintenance of office equipment	73,000	53,000
Professional services	16,000	18,000
Appeal Boards—fees and expenses	12,000	25,000
Depreciation	46,000	37,000
Other	48,000	41,000
	5,715,000	4,564,000
Less: Portion allocated to operations under the Farm Machinery Syndicates Credit Act	26,000	66,000
	5,689,000	4,498,000
Net operating loss, provided for by parliamentary appropriation	$ 2,579,000	$ 1,030,000

Operations under the Farm Machinery Syndicates Credit Act

Income—		
Interest (net) and service charges	$ 21,000	$ 15,000
Amount appropriated by Parliament for carrying out the purposes of this Act	—	75,000
	21,000	90,000
Portion of Corporation's expense allocated to operations under this Act	26,000	66,000
Net loss charged to retained earnings	$ 5,000	$ (24,000)

With respect to the operations under the Farm Credit Act, the increase of $1,191,000 n expense was due largely to the continuation of the growth in lending activity and the consequent expansion of the Corporation. This has resulted in an increase in staff from 83 at March 31, 1960 to 571 at March 31, 1966 and 620 at March 31, 1967. During he same period the number and principal of loans outstanding increased from 28,000 nd $117,000,000 to 58,000 and $749,000,000.

The cost of operations under the Farm Machinery Syndicates Credit Act decreased y $40,000 because there were preliminary and non-recurring organizational costs in the receding year.

In our report to the Minister of Agriculture under section 87 of the Financial Administration Act, on the examination of the accounts of the Corporation for the year nded March 31, 1967, reference was made to the reduction in the Reserve for Losses

during the past seven years, due in part to the statutory obligation placed on the Corporation to lend money at a fixed rate of interest, as follows:

> Section 15 of the Farm Credit Act requires the Corporation to establish a Reserve out of which may be paid "any losses sustained by the Corporation in the conduct of its business". The section further provides that the Corporation shall credit its net earnings each year to this Reserve until the amount of the Reserve equals the capital of the Corporation. At March 31, 1967 the capital of the Corporation amounted to $28,900,000 while the Reserve amounted to $1,569,290, having been reduced by $42,239 due to losses written off during the year.
>
> As previously pointed out, the statutory lending rate of 5% on loans to farmers has not provided sufficient income to cover the interest paid on borrowings from the Government of Canada and administrative expenses applicable to loans made at this rate. The annual excess of expense over income is now being met each year by parliamentary appropriation. The operating loss of $2,578,741 for the year ended March 31, 1967, compared with a loss of $1,029,998 for the previous year, was recovered from Department of Agriculture Vote 90g.
>
> While continuation of the policy of providing a parliamentary appropriation to cover the annual operating loss of the Corporation will prevent further depletion of the Reserve by such losses, no provision has been made for the building up of the Reserve to an amount equivalent to the capital of the Corporation as is contemplated by the Farm Credit Act.

A 1964 amendment to the Farm Credit Act increased the amount that a single farming enterprise may borrow under Part II of the Act from $20,000 to $40,000 and under Part III of the Act from $27,500 to $55,000. The interest rate of 5% per annum remains unchanged on amounts loaned by the Corporation up to the previously existing limits of $20,000 and $27,500, but the interest rate to be charged on moneys loaned in excess of these amounts may from time to time be prescribed by the Corporation with the approval of the Governor in Council "which rate shall be sufficient, if the whole amount of the loan were to be loaned by the Corporation at that rate, to return to the Corporation an amount equal to the cost to the Corporation of any money borrowed for the purposes of the loan and the expenses of the Corporation in respect thereof, including a reasonable reserve against loss".

The interest rate on moneys loaned under the increased limits was $6\frac{3}{8}\%$ per annum up to August 8, 1966 when it was raised to $6\frac{3}{4}\%$. Since these rates apply only to the portion of any loan in excess of $20,000 or $27,500, as the case may be, the operations of the Corporation will continue to result in an annual operating loss.

242. *The National Battlefields Commission.* This Commission was constituted by The National Battlefields at Quebec Act, 1908, c. 57, to acquire and preserve the historic battlefields at Quebec. The Commission comprises nine members, seven of whom are appointed by the Governor in Council and one each by the governments of the provinces of Ontario and Quebec.

Prior to 1958 the Commission was financed by statutory grants made under the constituting Act but since then it has been financed by annual parliamentary appropria-

tions. At March 31, 1967 the proprietary equity of the Crown in the Commission amounted to $1,550,000, comprising capital assets costing $1,536,000 and working capital of $14,000.

The following is a summary of the expenses of the Commission for the year compared with those of the preceding year:

	Year ended March 31	
	1967	1966
Salaries, wages and employee benefits	$ 185,000	$ 164,000
Policing services	27,000	19,000
Operating supplies and nursery stock	13,000	10,000
Light, heat, power, gasoline and oil	13,000	14,000
Repairs of roads, driveways and buildings	9,000	15,000
Special weed treatment for lawns	8,000	8,000
Other	14,000	12,000
	269,000	242,000
Capital outlays	23,000	12,000
	$ 292,000	$ 254,000

The expenses of the Commission amounting to $292,000 were financed to the extent of $281,000 by Department of Indian Affairs and Northern Development Vote 15 and $2,000 from miscellaneous income. The balance of $9,000 reflects a decrease in working capital.

Funds contributed by provincial governments and others since establishment of the Commission in 1908, which may be used only for the acquisition of land with prior parliamentary approval, amounted to $34,000 at March 31, 1967. The only changes in this account since 1938 have been the credits from interest earnings.

In 1966 we reported that tenders for contracts for maintenance projects were invited only from contractors selected by the Park Superintendent and the Secretary of the Commission rather than by public advertisement. This practice is still in effect.

243. *National Capital Commission.* This Commission was established by the National Capital Act, 1958, c.37, to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission, 1899. The objects and purposes of the Commission are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance".

Subject to the control exercised by the Governor in Council, the Commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; undertaking joint projects with municipalities or making grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites. The Commission consists of 20 members appointed by the Governor in Council from across Canada.

At March 31, 1967 the Crown's equity in the Commission totalled $166,471,000 represented by capital assets at cost, $163,489,000, and working capital, $2,982,000.

The following notes appeared on the Commission's balance sheet at March 31, 1967:

(1) Parliament in the years 1959-60 to 1966-67 inclusive, has authorized loans of $38,900,000 to the Commission for the purpose of acquiring property in the Greenbelt. Of this amount, $37,400,000 had been borrowed to March 31, 1967 leaving $1,500,000 which may be borrowed in subsequent years.

(2) In addition to the recorded liabilities, the Commission was obligated as at March 31, 1967 for:

(a) compensation for properties expropriated estimated at $14,500,000;

(b) outstanding commitments under uncompleted work contracts amounting to approximately $4,791,000; and

(c) a balance of approximately $1,000,000 pursuant to an agreement with the Canadian National Railway Company for the acquisition of certain railway assets related to the railway relocation program.

(3) The Commission is committed under an agreement with the Canadian Pacific Railway Company and the Canadian National Railway Company to the relocation of certain railway tracks, buildings and works and, on completion, to transfer to the railway companies title to land, buildings, tracks and other works which were acquired or constructed by the Commission. These railway lines and structures are included in the capital assets at March 31, 1967 at approximately $36,000,000. An estimated amount of $3,000,000 is required for completion of these works, indemnities to owners of railway sidings, and maintenance commitments, in addition to approximately $2,000,000 included in item (2) (b) and the $1,000,000 in item (2) (c).

(4) The Commission is committed to landscape and to transfer certain lands as follows:

(a) to the City of Ottawa, the right-of-way for the Queensway, free of charge;

(b) to the City of Ottawa, certain lands for Riverside Drive, at 50% of cost; and

(c) to the provinces of Ontario and Quebec, the approaches for the Macdonald-Cartier Bridge, free of charge.

The Commission's activities are financed by annual parliamentary appropriations, withdrawals from the National Capital Fund, loans from the Government of Canada, and revenues from rentals, etc.

A summary of the transactions for the past two years is as follows:

	Year ended March 31	
	1967	1966
Operation and maintenance of parks, parkways and grounds adjoining government buildings at Ottawa and Hull, maintenance of other properties and general administration		
Expenditure	$ 4,893,000	$ 3,969,000
Provided for by—		
Parliamentary appropriation	$ 4,711,000	$ 3,781,000
Revenue	182,000	188,000
	$ 4,893,000	$ 3,969,000

	Year ended March 31 1967	1966
National Capital Fund		
Balance at April 1—		
In the Consolidated Revenue Fund	$ 1,625,000	$ 425,000
In the hands of the Commission	(796,000)	1,750,000
	829,000	2,175,000
Parliamentary appropriation	25,000,000	12,100,000
	25,829,000	14,275,000
Expenditure—		
Capital outlays for parks, parkways, railway lines and structures, etc. (net)	23,858,000	12,607,000
Grants, assistance to municipalities, etc., consultants' fees and maintenance and rehabilitation	1,324,000	839,000
	25,182,000	13,446,000
Balance at March 31—		
In the Consolidated Revenue Fund	—	1,625,000
In the hands of the Commission	647,000	(796,000)
	$ 647,000	$ 829,000
Acquisition of property in the National Capital Region through loans provided by the Government of Canada		
Unexpended balance of loans at April 1	$ 140,000	$ 1,259,000
Add:		
Government of Canada loans (net)	6,956,000	7,478,000
Amount recovered from the National Capital Fund with respect to properties put into use	2,994,000	1,289,000
Proceeds from sales of property	49,000	1,733,000
	10,139,000	11,759,000
Deduct:		
Expenditure for acquisition of property	7,432,000	11,619,000
Unexpended balance of loans at March 31	$ 2,707,000	$ 140,000
Interest charges on outstanding Government of Canada loans		
Interest on loans	$ 3,781,000	$ 3,254,000
Provided for by—		
Parliamentary appropriation	$ 3,274,000	$ 2,741,000
Net revenue from rentals of property and interest earnings	507,000	513,000
	$ 3,781,000	$ 3,254,000

The expenditures included in these transactions may be summarized as follows:

		Year ended March 31	
		1967	1966
Operation and maintenance		$ 4,893,000	$ 3,969,000
Capital outlays (net)		23,858,000	12,607,000
Grants, assistance to municipalities, etc.		1,324,000	839,000
Acquisition of property	$ 7,432,000		11,619,000
Less—Property put into use or sold	3,043,000		3,022,000
		4,389,000	8,597,000
Interest on loans		3,781,000	3,254,000
		$ 38,245,000	$ 29,266,000

These expenditures, incurred in the various activities of the Commission, were financed as follows:

		Year ended March 31	
		1967	1966
Parliamentary appropriations		$ 33,167,000	$ 19,968,000
Loans (net)	$ 7,096,000		8,737,000
Less—Loan proceeds not used	2,707,000		140,000
		4,389,000	8,597,000
Revenues of the Commission		689,000	701,000
		$ 38,245,000	$ 29,266,000

The increase in expenditure was mainly due to the completion during the year of the relocation of the railway lines and structures for the new Ottawa railway terminal.

Three instances were noted where the expenditure on contracts substantially exceeded the amount authorized by the Treasury Board, without prior approval having been obtained:

1. The Treasury Board authorized the Commission to enter into a contract for the lowering of part of the Prescott Subdivision railway line and for the construction of the Western Interceptor storm sewer and Mooney's Bay sanitary sewer at an overall cost of $1,974,862 estimated on the basis of unit prices. The total cost was $2,236,163 or $261,301 in excess of the amount authorized.
2. The Commission was authorized by the Treasury Board to construct a car and diesel servicing and repair shop at the Walkley freight yards at a cost of $748,800. The final cost was $917,062 or $168,262 in excess of the amount authorized.
3. The Treasury Board authorized the construction of a boiler plant and car department building at Hurdman at a contract price of $1,038,000. To March 31, 1967 the Commission had paid progress claims totalling $1,153,534 or $115,534 in excess of the total authorized amount.

Treasury Board approval of the additional expenditure has since been obtained.

Certain capital expenditures of the Commission are financed by Government of Canada loans. Funds for the payment of interest on these loans and for repayment of principal in certain cases are provided to the Commission from parliamentary appropriations of subsequent years. At March 31, 1967 outstanding loans from the Government of Canada totalled $74,286,000 compared with $67,329,000 at the end of the preceding year. Interest charges in 1966-67 amounted to $3,781,000 of which $3,274,000 was provided for by Department of Public Works Vote 60. Repayments of principal during the year amounted to $3,043,000 of which $2,994,000 was provided for by the National Capital Fund. This procedure has been commented upon in previous Reports and is further dealt with in paragraph 196 of this Report.

The Public Accounts Committee gave consideration during the year to the practice f requiring the National Capital Commission to seek parliamentary appropriations o enable it to pay interest on loans obtained from the Minister of Finance for the urchase of properties. In its Seventh Report 1966-67 (see Appendix 1, items 18 nd 36) the Committee noted the undertaking of the Department of Finance to review nd discuss this practice with the Auditor General and asked that he report on the natter in due course. No discussion on this subject has yet been initiated by the Department of Finance.

244. *National Harbours Board.* This Board with its head office in Ottawa was stablished in 1936 by the National Harbours Board Act, R.S., c.187, and has jurisdiction ver the harbours of St. John's, Halifax, Saint John, Chicoutimi, Quebec, Trois-Rivières, Iontreal, (including the Jacques Cartier and Champlain Bridges), Churchill and Vancouver, together with grain elevators at Prescott and Port Colborne.

The Crown's equity in the Board at December 31, 1966 totalled $439,212,000 comrising: equity represented by the cost of assets transferred to the Board on its establishent and subsequently, $71,569,000; loans and advances, $343,788,000; interest in arrears n loans and advances, $103,203,000; and reserves, $9,017,000; less accumulated deficit $88,365,000.

The value of the Port and Harbour of St. John's, excluding land, was recorded at 10,086,000 as of January 1, 1965, being the estimated net book value at the time it ecame a national harbour upon transfer from the Department of Public Works. The timated value of the land is to be recorded when the identification of the land and water ts has been completed. Officials of the Board have advised us that the identification d valuation will be completed in 1967.

During the year there was an increase of $20,576,000, to $343,788,000, in the indebtedss of the Board for loans and advances and $9,918,000 for interest in arrears on loans d advances. The interest in arrears has increased steadily in recent years as shown in e following table:

December 31, 1960	$ 59,008,000
December 31, 1961	64,786,000
December 31, 1962	71,290,000
December 31, 1963	78,559,000
December 31, 1964	86,204,000
December 31, 1965	93,285,000
December 31, 1966	103,203,000

In previous Reports we have observed that there was little prospect of the Board being able to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In this connection, the Public Accounts Committee in its Twelfth Report 1966-67 commented as follows (see Appendix 1, item 51):

> The Committee is concerned that there appears to be little prospect of the Board being in a position to meet its principal and interest obligations and recommends that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter will be dealt with by the Department of Finance and the Board within the next twelve months.

In November 1966 the Department of Finance submitted recommendations to the Board as to how this could be accomplished and the implementation of these recommendations is still under study.

Current assets of the Board included the sum of $424,000 due from the Quebec Natural Gas Corporation for rental charges by the Board for the easement for a 20-inch natural gas pipeline over the Jacques Cartier Bridge. The amount represents $349,000 outstanding on December 31, 1965 plus $75,000 for 1966. In previous Reports we have noted that the authority for the installation of the pipeline was granted by the Board on May 1, 1959 subject to later negotiation of the annual rental rate but that the Corporation subsequently would not agree to the rate proposed and requested the Board to consider one that was little more than nominal. Agreement has still not been reached with respect to the rental charge and the Department of Justice is conducting legal proceedings against the Corporation.

Until revocation of tolls on June 1, 1962, the Jacques Cartier Bridge was operated under a tri-partite agreement which required the City of Montreal and the Province of Quebec to pay to the Board one-third of any annual deficit arising from the operations of the Bridge to a maximum of $150,000 each. Since 1944 the Province has refused to make the required contributions and at the end of 1949 its accumulated indebtedness amounted to $744,425. From 1950 until revocation of tolls, the Bridge did not incur an operating deficit and the accounts of the Board continue to show this amount as due from the Province. In previous years the Board was unable to institute legal proceedings against the Province without first obtaining a fiat from the Provincial Attorney General. On September 1, 1966, however, an amendment to the Quebec Code of Civil Procedure came into force which eliminated the need for a fiat in proceedings against the Province. Accordingly, the Board re-submitted its claim to the Province early in 1967. To the date of our examination no reply had been received.

In 1965 the Board reported an account receivable in the sum of $137,000 for grain storage charges at Montreal Harbour covering the period of a union labour strike involving employees of the Board. The Department of Justice has now expressed the opinion that under the provisions of the Canada Grain Act, R.S., c.25, storage charges are not collectable for the period during which outward grain shipments were delayed by

the strike. As a consequence, charges amounting to $111,000 were cancelled and the amount was written off to deficit as a prior year adjustment, leaving an amount of $26,000 still in dispute.

In our 1966 Report we stated that the long-standing dispute with the Canadian Pacific Railway regarding the ownership of certain areas of Coal Harbour, Vancouver, was being resolved within the terms of a "Memorandum of Agreement" signed by both parties in June 1966. However, all the necessary legal steps have not yet been completed and final settlement is still pending. Each party is continuing to collect, and hold in escrow, rentals and other revenues from areas in their possession. At December 31, 1966, the Board held $200,000 in cash and securities while the Railway held $288,000.

The following is a summary of the operations of the harbours and elevators and of the bridges for the past two years:

	Year ended December 31	
	1966	1965
Harbours and Elevators		
Operating income—		
Wharves and piers	$ 18,258,000	$ 17,124,000
Grain elevator systems	11,545,000	10,454,000
Cold storage systems	1,437,000	1,293,000
Permanent sheds	3,290,000	2,878,000
Railway systems	940,000	927,000
Miscellaneous	89,000	17,000
	35,559,000	32,693,000
Operation, maintenance and administration—		
Wharves and piers	8,849,000	7,582,000
Grain elevator systems	10,495,000	8,720,000
Cold storage systems	1,558,000	1,375,000
Permanent sheds	3,922,000	3,074,000
Railway systems	1,377,000	1,138,000
Administration	3,693,000	2,966,000
Miscellaneous	29,000	97,000
	29,923,000	24,952,000
Net operating income	5,636,000	7,741,000
Income from investments	2,619,000	2,515,000
	8,255,000	10,256,000
Provision for interest on loans and advances	9,472,000	9,445,000
Net loss (profit)	$ 1,217,000	$ (811,000)
Bridges		
Operating income—		
Jacques Cartier Bridge	$ 130,000	$ 127,000
Champlain Bridge	1,329,000	991,000
	1,459,000	1,118,000

	Year ended December 31	
	1966	1965
Operating expenses—		
Jacques Cartier Bridge	$ 1,685,000	$ 568,000
Champlain Bridge	899,000	766,000
	2,584,000	1,334,000
Net operating loss	1,125,000	216,000
Provision for interest on loans	2,122,000	1,733,000
Other interest (net)	59,000	59,000
Net loss	$ 3,306,000	$ 2,008,000

The increase in operating income for harbours and elevators, $2,866,000, resulte mainly from a continued increase in water-borne cargo tonnage. In 1966 an all-tim record of 76,188,000 tons was achieved; this surpassed the record set in 1965 by 2,874,00 tons. The increase in volume was attributed mainly to an increase of 1,875,000 tons i wheat exports together with an increase of 1,508,000 tons in receipts of domestic whea at Trois-Rivières, Quebec, Montreal and Port Colborne offset partly by a net decreas of 1,029,000 tons in foreign inward traffic. The increase in wheat exports was mainly du to accelerated deliveries to the U.S.S.R. and China which exceeded the peak establishe in 1964.

All harbours, with the exception of Churchill, experienced an increase in operatin income, the largest increases being at Montreal, $1,689,000, Vancouver, $819,000, Halifa: $130,000 and Saint John, $123,000. There was a decrease of $127,000 in the operatin income at Churchill as a result of the reduction in grain traffic from 46,344,000 bushe to 44,807,000 bushels. The Prescott Elevator also experienced a reduction of $16,000 i operating income. This was caused by a reduction in the volume of grain handled fro 40,206,000 bushels to 37,477,000 bushels.

Traffic across the Champlain Bridge for the year totalled 8,721,000 vehicles, a increase of 2,342,000 or 37% over the previous year with a resulting increase of $338,0 in operating income.

Operation, maintenance and administration expense of harbours and elevators i creased by $4,971,000 of which $4,244,000 pertained to operation and maintenance an $727,000 to administration. The bulk of the increase in operation and maintenan expense was attributable to additional grants in lieu of municipal taxes in the sum $1,205,000, together with increases in salary and wage rates, prices for supplies and stev dore services. The increase in salary and wage rates, together with an increase of $379,0 in the Board's matching contributions to employee pension plans, largely accounts f the increase in administration expense.

In previous Reports we observed that the Board was required to pay workers f "dip-time", being the initial stages of unloading a grain vessel when only mechanic

devices are used, in accordance with the collective bargaining agreements between the Board and the labour unions at Port Colborne and Prescott. The workers have continued to be paid for this time which amounts to approximately $20,000 annually.

Operating expense of the Jacques Cartier Bridge increased by $1,117,000 over 1965 which can be attributed to maintenance work, the larger projects being: reconstruction of deck slabs, $970,000; painting, $392,000; and re-surfacing of the deck slab north of St. Helen's Island, $92,000. This re-surfacing project comprised replacement of the surface which had been placed on the roadway in October and November 1965 at a cost of $84,000. Early in 1966, the road surface began to deteriorate and by the middle of July, the Board's consulting engineer concluded that the asphalt mix had been applied too late in the autumn when the temperature fell below an acceptable level. The repairs were completed in mid-November 1966. (See paragraph 114 of this Report.)

245. *Northern Canada Power Commission and subsidiary companies.* This Commission, established in 1948 under the Northern Canada Power Commission Act, R.S., c.196, consists of three members appointed by the Governor in Council. The objects of the Commission are to construct and operate electric power plants and to supply power to mines and other users in the Northwest Territories and the Yukon Territory and, with the approval of the Governor in Council, in any other part of Canada. The Commission has its head office in Ottawa and operates fourteen power plants.

On September 30, 1966 the Commission purchased all the shares of The Dawson City Water and Power Company, Limited, The Dawson Electric Light and Power Company, Limited and The Yukon Telephone Syndicate, Limited for $337,000. The financial statements of these subsidiary companies were consolidated with those of the Commission at March 31, 1967.

The Crown's equity in the Commission and subsidiary companies at March 31, 1967 and March 31, 1966 was:

	March 31, 1967	March 31, 1966
Advances, including $50,000 for investigation of projects......$	30,707,000	$ 30,749,000
Cost of:		
Central heating, water and sewerage and fire alarm systems at Inuvik, N.W.T., financed by parliamentary appropriation.	7,003,000	7,003,000
Extension, expansion and improvements of capital assets financed from earnings..............................	671,000	560,000
Reserve for contingencies..................................	2,156,000	2,141,000
Earned surplus..	1,342,000	1,477,000
	$ 41,879,000	$ 41,930,000

The Commission also acts as agent for Canada in respect of loans of $71,901,000 made to provincial power commissions under the Atlantic Provinces Power Development Act, 1957-58, c.25.

The following is a summary of the income and expense of the Commission and sub
sidiary companies for the past two years:

	Year ended March 31	
	1967	1966
Income—		
Sales of power	$ 3,824,000	$ 3,320,000
Sales of heat	994,000	733,000
Income arising from construction, maintenance and operation of facilities for government departments and others	960,000	1,037,000
Miscellaneous	246,000	209,000
	6,024,000	5,299,000
Expense—		
Operations and maintenance	3,575,000	3,104,000
Interest on advances from Canada	1,372,000	731,000
Depreciation	673,000	575,000
Administration	413,000	321,000
	6,033,000	4,731,000
Net loss (income)	$ 9,000	$ (568,000)

The increase in income from sales of power is mainly attributable to the fact th
the Taltson River, N.W.T. hydro-electric plant was in operation for its first full twelv
month period and also to the fact that the Cambridge Bay, N.W.T. and Dawson, Y.T
plants commenced operations during the year. The increase in income from sales of he
is due mainly to the provision of heat to the Federal Building at Frobisher Bay.

Operations and maintenance expense increased largely because of: the cost
operating two new facilities at Cambridge Bay and Dawson; the operation for the fir
full twelve-month period of the Taltson River plant; and general salary increases grant
during the year.

246. *Northern Ontario Pipe Line Crown Corporation.* This Corporation was esta
lished by the Northern Ontario Pipe Line Crown Corporation Act, 1956, c.10, for t
purpose of constructing the Northern Ontario section of the all-Canadian natural g
pipe line and leasing it (subject to approval by the Governor in Council) to Tran
Canada Pipe Lines Limited, with an option to purchase.

In due course the pipe line was constructed and leased with an option to purcha
The option was exercised and the sale was completed on May 29, 1963. The purcha
assumed responsibility for the negotiation and settlement of all claims then outstandi
and any other claims which might arise in the future. Upon receipt of payment the Co
poration discharged its liability to the Crown for outstanding loans and interest accru
thereon, and was left with a surplus of $694,000 of which $690,000 remained on depo
with the Receiver General at the close of the Corporation's financial year on Decemb

31, 1966. In July 1967, in accordance with a resolution of the Board of Directors of the Corporation, its interest in the deposit of $690,000 was waived and the amount was transferred to revenue in the accounts of Canada.

We have been informed that action to wind up the affairs of this Corporation, which completed its intended function in 1963, is being continued. Transactions in 1966 involved only expense of $182, primarily for the printing of the annual report and in connection with the annual meeting.

247. *Northern Transportation Company Limited and subsidiary companies.* Northern Transportation Company (1947) Limited, a wholly-owned subsidiary of Eldorado Mining and Refining Limited, was incorporated in 1947 under the provisions of the Canada Corporations Act, R.S., c.53, to take over the business of a predecessor company which had been incorporated under a Province of Alberta charter in 1934 and whose shares had been acquired when the capital stock of Eldorado Mining and Refining Limited was expropriated by the Crown in 1944. The corporate name was changed to Northern Transportation Company Limited in 1952. In 1965 the Company acquired all the capital stock of three companies, Yellowknife Transportation Company Limited, Arctic Shipping Limited and Decury Supply Limited. The operations of these companies are now fully integrated with the parent company.

The Company is empowered to carry on a general transportation business by land and water throughout Canada and elsewhere. Although the head office of the Company is in Ottawa, administrative headquarters are in Edmonton and activities have been almost wholly confined to the Mackenzie River water system and the Western Arctic.

The equity of Eldorado Mining and Refining Limited in the Company at December 31, 1966 was $7,503,000 comprising capital stock of $152,000, a reserve for insurance of $500,000 and surplus of $6,851,000.

Two cargo vessels, 15 tugs and 113 barges were operated in 1966, a reduction of one tug and one barge from the number operated in 1965. The consolidated result of operations of the Company and its subsidiaries for 1966 compared with 1965 follows:

	Year ended December 31	
	1966	1965
Income—		
Freight earnings	$ 3,984,000	$ 4,878,000
Expense—		
Operations and maintenance:		
Salaries and wages	1,267,000	1,296,000
Repairs and maintenance	749,000	769,000
Depreciation	727,000	633,000
Fuels and lubricants	266,000	299,000
Messing	238,000	204,000
Other	229,000	368,000
	3,476,000	3,569,000

	Year ended December 31	
	1966	1965
Administration	$ 370,000	$ 474,000
	3,846,000	4,043,000
Net income from operations	138,000	835,000
Miscellaneous income	54,000	86,000
	192,000	921,000
Provision for income tax	86,000	473,000
Net income	$ 106,000	$ 448,000

Two factors contributed to the decline of $894,000 in freight earnings. The rate for transporting bulk oil to northern destinations was reduced and freight carried in 1966 declined by 20,000 tons from that of the previous year as a result of decreases in oil exploration activity in the Mackenzie River delta and in the volume of shipments to the Great Canadian Oil Sands project.

As a consequence of the acquisition and integration of the subsidiary companies in 1965, various extraordinary expenses were incurred that had no counterpart in 1966. The decline in freight volume, from 94,030,000 ton-miles in 1965 to 83,410,000 ton-miles in 1966, also contributed to the reduction of certain operating costs.

The decrease of $104,000 in administration expense is mainly due to expenses incurred in 1965 in respect of the acquisition of the subsidiary companies which had no counterpart in 1966.

Miscellaneous income decreased largely because of the reduction in income from investments due to the utilization of $1,500,000 in short-term deposits on the Company's capital asset program in 1966.

248. *Polymer Corporation Limited and subsidiary companies.* Polymer Corporation Limited was incorporated in 1942 under the Canada Corporations Act, R.S., c.53, pursuant to the provisions of section 6 of the Department of Munitions and Supply Act, 1939, c.3. The Company produces synthetic rubbers and chemicals. The head office of the Company is in Sarnia, Ont. At December 31, 1966 there were six wholly-owned subsidiaries: Polysar Belgium N.V.; Polysar Nederland N.V.; Polysar International S.A.; Kayson Plastics & Chemicals Limited; Kaydot Plastics Limited; and Polysar Italiana S.p.A.; and one subsidiary, Polymer Corporation (SAF), in which the parent Company held a 95% equity. In addition, the Corporation increased its investment, as a minority shareholder in companies in Mexico, South Africa, and Switzerland, from $4,297,000 at December 31, 1965 to $6,528,000 at December 31, 1966.

The equity of the Crown in Polymer Corporation Limited and its subsidiary companies at December 31, 1966 amounted to $100,319,000, consisting of capital stock of $30,000,000 and retained earnings of $70,319,000. Dividends of $4,500,000 were paid to the Receiver General in 1966, identical to the amount paid in 1965.

Net additions to fixed assets during the year amounted to $24,953,000. Major expenditures included new styrene monomer facilities and a litol unit at Sarnia and new latex and styrene-butadiene rubber facilities at Strasbourg, France.

Long-term liabilities totalled $24,623,000 and, with the exception of $32,000, are payable in foreign currencies over the years 1967 to 1977 as follows: F.fr. 43,000,000 ($9,462,000), B.fr. 450,000,000 ($9,729,000), and U.S. $5,000,000 ($5,400,000).

The following is a summary of the operations of the Company and its subsidiaries for the past two years:

	Year ended December 31	
	1966	1965
Income—		
Sales	$ 126,778,000	$ 116,709,000
Other	760,000	794,000
	127,538,000	117,503,000
Expense—		
Cost of sales	102,605,000	95,394,000
Selling, administration and research	11,392,000	9,194,000
	113,997,000	104,588,000
Net income before provision for income tax	13,541,000	12,915,000
Provision for income tax	2,328,000	2,584,000
	11,213,000	10,331,000
Minority shareholder's interest	(8,000)	28,000
Net income	$ 11,221,000	$ 10,303,000

The decrease in the provision for income tax is due to the carry forward of prior ears' losses of the Corporation's subsidiaries and savings in Canadian income taxes hich were obtained under incentives to increase expenditures on scientific research over 1 established base period.

249. *The St. Lawrence Seaway Authority*. Established by the St. Lawrence Seaway uthority Act, R.S., c.242, the Authority maintains and operates the Canadian section the 27-foot deep waterway between the Port of Montreal and Lake Erie. The section the Seaway in the United States is operated by the Saint Lawrence Seaway Developent Corporation. Toll revenues derived from the operation of the Montreal-Lake itario Section are divided between the two Seaway entities in accordance with an reement approved by the Governments of Canada and the United States.

The Authority also operates non-toll canals at Lachine, Que., Cornwall, Ont., and ult Ste. Marie, Ont., the net operating cost being provided for by annual parliamentary propriations.

The Authority is a corporation consisting of a president and two other members appointed by the Governor in Council. Its head office is at Ottawa, with operating headquarters at Cornwall, Ont., and regional headquarters at St. Lambert, Que., and St. Catharines, Ont.

The Crown's equity in the Authority at December 31, 1966 and December 31, 1965 was:

		December 31, 1966	December 31, 1965
Capital assets transferred from the Department of Transport (Welland Canal)		$ 130,717,000	$ 130,717,000
Loans under section 25 of the Act—			
Interest-bearing	$ 335,150,000		326,700,000
Interest-free	72,500,000		52,500,000
		407,650,000	379,200,000
Interest on loans—deferred		47,768,000	45,145,000
		586,135,000	555,062,000
Deduct: Deficit		45,422,000	42,199,000
		$ 540,713,000	$ 512,863,000

The following is a summary of the income and expense of the Authority for the past two years:

	Year ended December 31 1966	1965
Income—		
Tolls	$ 17,282,000	$ 15,480,000
The Seaway International Bridge Corporation, Ltd.—net income	182,000	165,000
Other	1,932,000	1,203,000
	19,396,000	16,848,000
Expense—		
Operation and maintenance	12,644,000	10,239,000
Headquarters administration	1,804,000	1,348,000
Engineering	1,755,000	1,160,000
Regional administration	1,426,000	1,070,000
Economic survey	8,000	125,000
	17,637,000	13,942,000
Less portion allocated to:		
Non-toll canals	458,000	370,000
Construction	1,681,000	1,158,000
	2,139,000	1,528,000
	15,498,000	12,414,000

	Year ended December 31	
	1966	1965
Net operating income before providing for interest and for replacement of machinery and equipment	$ 3,898,000	$ 4,434,000
Interest on loans from Government of Canada	16,313,000	15,824,000
Provision for replacement of machinery and equipment	867,000	882,000
	17,180,000	16,706,000
Net loss	13,282,000	12,272,000
Deduct: Welland Canal operating deficit recovered from parliamentary appropriation	10,059,000	8,175,000
Deficit—Montreal-Lake Ontario Section	$ 3,223,000	$ 4,097,000

The extent by which revenues again fell short of meeting operating expenses, inter- charges and provision for replacement of machinery and equipment in the Montreal-ke Ontario Section of the Seaway is shown in the following summary of the operating ults for the year compared with the preceding year together with the cumulative erating results from the opening of the Seaway in 1959. It should be noted that the ures include no provision for repayment of the capital indebtedness of $327,450,000 respect of the Montreal-Lake Ontario Section which the St. Lawrence Seaway Author- Act requires to be paid out of earnings by December 31, 2009. If this obligation is to met, revenues over the 43 years from 1967 to 2009 must average over $24 million ually on the basis of 1966 costs. The revenues for 1966 were $6 million short of meet- this requirement.

	Year ended December 31		Cumulative to December 31, 1966
	1966	1965	
Tolls	$ 17,282,000	$ 15,480,000	$ 88,299,000
Other income	1,051,000	570,000	3,550,000
	18,333,000	16,050,000	91,849,000
Expenses of operation, maintenance and administration	4,386,000	3,513,000	22,884,000
Net operating profit	13,947,000	12,537,000	68,965,000
Interest on loans	16,303,000	15,752,000	107,594,000
Provision for replacement of machinery and equipment	867,000	882,000	6,793,000
	17,170,000	16,634,000	114,387,000
Deficit	$ 3,223,000	$ 4,097,000	$ 45,422,000

With the opening of the Seaway in 1959 the operation and management of the Welland Canal became a responsibility of The St. Lawrence Seaway Authority. Tolls were suspended in 1962 and the annual operating deficits have since been recovered from parliamentary appropriations. The following is a summary of the operating results for the past two years:

	Year ended December 31	
	1966	1965
Expenses of operation, maintenance and administration	$ 11,112,000	$ 8,901,000
Sundry income	1,063,000	798,000
Net operating loss	10,049,000	8,103,000
Interest on loans	10,000	72,000
Deficit recovered from parliamentary appropriation	$ 10,059,000	$ 8,175,000

The agreement made in 1959 between the Authority and the Saint Lawrence Seaway Development Corporation established a joint tariff of tolls for the St. Lawrence Seaway. The agreement provided that the division of tolls derived from the operation of the Montreal-Lake Ontario Section of the Seaway would be initially 71% to the Authority and 29% to the Corporation, and that these percentages would be adjusted from time to time so that the Authority and the Corporation would receive a portion of the tolls in the ratio of their respective annual charges for operation, maintenance, interest and retirement of debt to their combined annual charges in respect of that portion of the Seaway. Calculations made on the basis of 1965 costs indicated that the Authority should be receiving 72.65% of the tolls and the Corporation 27.35%.

The Authority and the Corporation were to report to their respective Governments by July 1, 1964 on the adequacy of the tariff of tolls to provide sufficient revenue to meet their operating costs and financial obligations. However, the Governments of Canada and the United States agreed to defer the date on which the entities were to report to July 1, 1966. In March 1967 the two Governments agreed to continue the existing schedule of tolls for the Montreal-Lake Ontario Section, to divide tolls on the basis of 73% to the Authority and 27% to the Corporation, and that the sufficiency and division of tolls might, at the request of either entity, be reviewed with a view to any necessary adjustment at the expiry of the 1970 navigation season, in accordance with the provisions of the 1959 agreement, as amended. However, the tariff of tolls was amended to include a lockage fee for the Welland Canal of $20 a lock for the 1967 navigation season, increasing by $20 each year to reach $100 a lock in 1971.

The original conditions under which loans were made to the Authority under section 25 of the Act required the payment of interest only, in the first three full years of operation (through the year ended December 31, 1962) and thereafter payment of annual amounts sufficient to amortize all loans and interest thereon over a period of forty-seven years (or by December 31, 2009). The terms of the Authority's financing arrangements were amended in 1961, 1963, 1964 and again in 1967 and now call for repayment of all

nterest-bearing loans together with interest previously deferred and all other interest ccrued or accruing up to December 31, 1967, together with current interest thereon, in orty-two equal annual instalments commencing December 31, 1968. At December 31, 966, loans in respect of the Montreal-Lake Ontario Section amounted to $327,450,000 nd deferred interest to $47,720,000. For the Welland Section loans to finance improvenents totalled $80,200,000 of which $72,500,000 is interest-free and the balance of 7,700,000, provided since September 22, 1966, bears interest which amounted to $48,000 t December 31, 1966. Interest on all such loans subsequent to September 22, 1966 is to e accrued in the accounts but is not to be paid until December 31 of the year in which he Minister of Transport determines that the Welland Canal twinning project is comleted.

The costs of operating and maintaining the canals and works under the administraon of the Authority are defined in section 16 of the St. Lawrence Seaway Authority Act s including all operating costs of the Authority and such reserves as may be approved y the Minister. The Authority is of the opinion that it is not necessary to include epreciation as an element of operating and maintenance cost and that the amortization ver the fifty-year period of the principal of the amounts borrowed together with interest eets the requirements of this section. Accordingly, no provision for depreciation has een included in the costs of the year.

As in previous years, provision was made during the year toward the cost of replacing ck, bridge and building machinery and equipment of the Montreal-Lake Ontario Secon. The provision for 1966, on an estimated replacement value basis, amounted to 67,000 bringing the amount available for replacement of machinery and equipment at ecember 31, 1966 to $6,574,000.

No provision was made in 1966 for replacement of machinery and equipment for e Welland Section.

The following items have been outstanding for several years:

(a) In 1956 an arrangement was made between the Authority and three municipalities whereby the municipalities would contribute $250,000 towards the cost of extending the collector sewer which was then being constructed as the main part of the Authority's South Shore remedial works. In 1961 two of the three municipalities passed official resolutions to accept the 1956 proposal and to share in the $250,000 contribution. The sewer extension was completed in 1963 at a cost of $480,000 and the municipalities were billed in February 1964 for their contribution. No payment has been received by the Authority from the municipalities, two of which are said to be under trusteeship of the Province of Quebec because of financial difficulties. During the year the Department of Justice, on behalf of the Authority, appointed an agent to take legal proceedings.

(b) The Beauharnois Canal, constructed by the Beauharnois Light, Heat and Power Company, was conveyed to the Crown in 1932 with the Company, which has since been taken over by the Quebec Hydro-Electric Commission, retaining responsibility for certain operating and maintenance expenses of the Canal. The Canal became part of the St. Lawrence Seaway in 1959. The Authority has not been reimbursed its maintenance expenses on the Canal since 1962 as the Commission takes the stand that it is not responsible for these costs because of provincial legislation passed in 1962 which dissolved the Beauharnois Light, Heat and Power Company. Settlement of the issue continues to rest with the federal and provincial governments.

The following table summarizes for the past two years the expense, income and capital expenditure relating to the non-toll canals operated or administered by the Authority:

	Year ended December 31	
	1966	1965
Expense—		
Operation and maintenance	$ 2,148,000	$ 1,620,000
Grants in lieu of municipal taxes	769,000	246,000
Portion of Authority's administration and engineering expenses applicable to non-toll canals	458,000	370,000
	3,375,000	2,236,000
Income from rentals, wharfage, etc	696,000	628,000
Operating deficit	2,679,000	1,608,000
Capital expenditure	35,000	83,000
Operating deficit and capital expenditure recovered from parliamentary appropriation	$ 2,714,000	$ 1,691,000

The operating deficit of $2,679,000 for 1966 was $1,071,000 higher than the 1965 deficit of $1,608,000. The larger deficit was due mainly to increases of $523,000 in payments of grants in lieu of taxes, including $327,000 in respect of 1965 taxes, $199,000 in employees' salaries and benefits resulting largely from a 20% wage increase, effective January 1, 1966, and payment of a special grant of $150,000 to a municipality for assumption of responsibility for a bridge.

250. *The Seaway International Bridge Corporation, Ltd.* This Corporation was incorporated in 1962 under the Canada Corporations Act, R.S., c.53, pursuant to section 24A of the St. Lawrence Seaway Authority Act, R.S., c.242, as a subsidiary of The St. Lawrence Seaway Authority for the purpose of operating and managing the international toll bridge between Cornwall, Ont., and Rooseveltown, N.Y., on behalf of the owners, The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government corporation). The Authority's interest is represented by capital stock of $8,000 and promissory notes for $17,000. The Seaway Development Corporation's interest is represented by promissory notes for $17,000 and debentures of $8,000. Each entity has four representatives on the Board of Directors.

Under the terms of the bridge operating agreement between the Authority and the Saint Lawrence Seaway Development Corporation, the annual income from operation of the bridge system, after payment of operating expenses, is to be applied first towards the amortization of the cost of the North Channel Bridge, together with interest, after which the balance of the income is to be divided equally between the Seaway entities.

The following is a summary of the Corporation's operations for the past two years:

	Year ended December 31	
	1966	1965
Income—		
Bridge tolls	$ 408,000	$ 381,000
Other	19,000	14,000
	427,000	395,000
Expense—		
Salaries, wages and employee benefits	171,000	135,000
Maintenance materials and services	16,000	25,000
Rental of toll collection machines	13,000	13,000
Grant in lieu of municipal taxes	12,000	13,000
Advertising	10,000	22,000
Other	23,000	22,000
	245,000	230,000
Net income—transferred to The St. Lawrence Seaway Authority	$ 182,000	$ 165,000

The amount of $182,000 was transferred to The St. Lawrence Seaway Authority ɔ be applied towards the amortization of the cost of the North Channel Bridge, together ·ith interest, leaving an unamortized balance of $9,724,000 at December 31, 1966. The mount transferred was insufficient to cover the interest charges of $473,000 for the ɜar on the indebtedness of the Authority with respect to the North Channel Bridge.

Departmental Operating Activities

251. A number of government departments engage in extensive trading and servicing activities including the buying and selling of commodities and the provision of services to the public and to government departments. These activities cover a wide variety of operations and are carried out either directly by a department or indirectly through non-corporate agencies established for the particular purpose.

The Financial Administration Act requires Crown corporations to prepare annual financial statements but there is no similar statutory requirement calling for the preparation of financial statements by departments and non-corporate agencies engaged in trading or servicing activities. A number of financial statements are prepared, usually on a cash basis, some of which are examined and certified by the Audit Office. Many do not take into account costs of depreciation, interest on capital, and services provided by government departments without charge.

For several years we have stated that Parliament should be provided with clearer information concerning the financial results of departmental trading and servicing activities. Some progress has been made but there are still a number of activities for which adequate statements are not prepared and there are cases where more attention should be given to the format of the statements in order to improve their effectiveness. Such financial statements should be on an accrual basis and should include charges for depreciation of buildings and equipment, interest on funds employed and the value of services provided without charge by other government departments. A reconciliation should be made between the operating results as shown by the statements and those recorded on the cash basis. Each balance sheet, which the Audit Office would be prepared to examine and certify, should show clearly the year-end financial position of the activity.

In its Fourth Report 1963 the Public Accounts Committee reiterated the belief that "it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts provided this can be done without undue cost or staff increases". It requested the Auditor General "to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course". (See Appendix 1, item 2).

The Royal Commission on Government Organization in its report on Financial Management recommended that the accounts of departments and agencies conducting trading and servicing operations should be maintained on an accrual basis to show clearly the costs of operations. The Commission also advocated greater use of revolving funds and accountable advances which would encourage the use of business-type budgeting and the production of meaningful operating statements.

In 1966 the Treasury Board issued a policy circular on the establishment and use of revolving funds—to be known thereafter as "working capital advances"—and one type singled out involved those providing for the carrying out of a definite activity or program. The circular pointed out that the accounting system for an activity or program should incorporate all costs associated with it, with common service costs to be included as memo items when no charge is made. An annual report is required in respect of each working capital advance including, where appropriate, (*a*) a balance sheet, (*b*) a statement of operations, compared with the budget, and (*c*) a statement of the disposition of the surplus or deficit. Implementation of this program should represent a long step towards reaching the objective which we have been advocating, with the support of the Public Accounts Committee.

The following paragraphs show how a number of the larger departments and agencies involved in trading or servicing activities have already reached or are progressing towards the development of financial statements along the lines indicated.

252. *Agricultural Products Board.* This Board operates under the authority of the Agricultural Products Board Act, R.S., c.4, and consists of a chairman and two members appointed by the Governor in Council. The Act empowers the Board, under the direction of the Minister of Agriculture and subject to approval of the Governor in Council, to buy, sell, or import, and to store, transport or process agricultural products. The Agricultural Products Board Account was established in the Consolidated Revenue Fund in accordance with section 5 of the Act and all financial transactions of the Board are recorded in this Account. The Board's activities are administered by personnel of the Department of Agriculture and the members of the Board also serve on the Agricultural Stabilization Board.

The Crown's equity in the Account at March 31, 1967 was $581,000, represented by an inventory of 3,138,000 pounds of dry skim milk, at cost.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1967	1966
Sales	$ 26,045,000	$ 9,187,000
Cost of sales—		
Inventory at beginning of year	9,000	747,000
Purchases	32,792,000	9,928,000
Freight, cartage and handling	477,000	41,000
Storage and processing	171,000	60,000
Repacking	—	39,000
	33,449,000	10,815,000
Less: Inventory at end of year	581,000	9,000
	32,868,000	10,806,000
Loss on sales	6,823,000	1,619,000

	Year ended March 31 1967	1966
Estimated value of major services provided without charge by government departments—		
Interest on working capital	$ 346,000	$ 79,000
Accounting	40,000	10,000
Administration	5,000	5,000
	391,000	94,000
Loss for the year	$ 7,214,000	$ 1,713,000
Loss for the year partially provided for by—		
Department of Agriculture Vote 17	$ 5,663,000	$ 1,619,000
Government departments which provided major services without charge	391,000	94,000
	6,054,000	*1,713,000*
Portion of loss not provided for—to be recovered from future parliamentary appropriation	1,160,000	—
	$ 7,214,000	$ 1,713,000

An analysis of the loss, by commodities, excluding cost of services provided by government departments, follows:

	Sales	Costs	Loss on sales
Dry skim milk	$ 18,273,000	$ 21,903,000	$ 3,630,000
Dry casein	4,409,000	7,228,000	2,819,000
Feed grain	1,293,000	1,429,000	136,000
Dry whole milk	1,199,000	1,374,000	175,000
Evaporated and condensed milk	863,000	925,000	62,000
Sudan Sorghum Hybrid seed	8,000	9,000	1,000
	$ 26,045,000	$ 32,868,000	$ 6,823,000

253. *Agricultural Stabilization Board.* The Agricultural Stabilization Board, consisting of three members appointed by the Governor in Council, was established by the Agricultural Stabilization Act, 1957-58, c.22, and has the responsibility for stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilization measures take the form of the purchase of commodities at prescribed prices, payment to producers of amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold, or payments to processors for the benefit of producers. The Agricultural Commodities Stabilization Account established in the Consolidated Revenue Fund finances the activities of the Board. The net operating losses on the operations of the Account and administration expenses of the Board are met out of moneys appropriated by Parliament for the purpose.

The Crown's equity in the Account at March 31, 1967 was $2,031,000 represented by an inventory of 3,509,000 pounds of butter at a cost of $2,051,000, and accounts receivable, $16,000, offset by advances from customers, $36,000.

Stocks of butter were reduced by 6,287,000 pounds from the 9,796,000 pounds held at March 31, 1966. The inventory of pork was disposed of by sale of 1,217,000 pounds to the trade and by destroying 316,000 pounds unfit for human consumption (see paragraph 58 of this Report for further particulars concerning pork destroyed).

The results of the Board's activities for the year ended March 31, 1967 are summarized as follows:

Trading operations—		
Sales	$ 51,935,000	
Cost of sales	53,417,000	
Loss on trading operations		$ 1,482,000

—by commodities—

	Sales	Cost of sales	Loss
Butter	$ 40,445,000	$ 40,513,000	$ 68,000
Cheese	11,251,000	12,599,000	1,348,000
Pork	239,000	305,000	66,000
	$ 51,935,000	$ 53,417,000	$ 1,482,000

Deficiency payments—		
Sugar beets	10,150,000	
Wool	648,000	
Eggs	20,000	
		10,818,000
Payments for stabilization of prices—		
Butterfat content of milk and cream		76,370,000
Estimated value of major services provided without charge by government departments—		
Interest on working capital	3,391,000	
Administration	656,000	
Accounting	163,000	
Postal	51,000	
Accommodation	31,000	
Employee benefits	24,000	
		4,316,000
Loss for the year		$ 92,986,000
Loss for the year provided for by—		
Department of Agriculture Vote 17		$ 88,670,000
Government departments which provided major services without charge		4,316,000
		$ 92,986,000

For the purpose of stabilizing the price of milk, the Manufacturing Milk and Cream Stabilization Order (1966) authorized payments, for the benefit of producers, on manufacturing milk and cream delivered by producers in the period April 1, 1966 to March 31, 1967. For each hundred pounds of milk delivered, 75 cents was paid directly to producers, and in June 1967 a further 2.7 cents per hundred pounds of milk was paid to the producers who had received the subsidy during the year. At March 31, 1967 the Board estimated that the subsidy at the rate of 2.7 cents per hundred pounds would amount to $2,721,000. No provision for this payment was made in the accounts nor is it included in the above summary of the Board's activities for the year.

254. *Department of Agriculture Revolving Fund.* Vote 783 of Appropriation Act No. 5, 1955, *1955, c.60*, authorized the operation of a revolving fund for the purposes of financing the production of new and improved varieties of seeds, and the acquisition, maintenance and development for experimental purposes of livestock, poultry and eggs, including administrative expenses of all authorized projects.

The Crown's equity in the Fund at March 31, 1967 was $238,000, represented by inventories of livestock and cereal and other crops held for research, $160,000, forage crop seed, poultry and swine for production and marketing, $65,000, and net accounts receivable, $13,000.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1967	1966
Sales	$ 667,000	$ 660,000
Cost of sales	409,000	465,000
Gross profit on sales	258,000	195,000
Expense—		
Research Branch	188,000	142,000
Production and Marketing Branch	315,000	253,000
	503,000	395,000
Net loss on operations	245,000	200,000
Deduct: Estimated value of major services provided without charge by government departments	335,000	339,000
Surplus, transferred from the Revolving Fund as revenue	$ 90,000	$ 139,000

255. *Airport operations.* The capital investment of the Department of Transport in airports and associated facilities, including aircraft, aircraft spares and special equipment, as at March 31, 1967 was $685,900,000 compared with $651,318,000 at the end of the preceding year, a net increase of $34,582,000.

The following is a summary of the revenue from civil aviation airport operations for he year, together with comparable figures for the preceding year:

	Year ended March 31 1967	1966
Aircraft landing fees—		
Trans-oceanic	$ 5,903,000	$ 5,006,000
Domestic	4,741,000	4,355,000
Trans-border	1,422,000	1,282,000
Other	22,000	21,000
	12,088,000	10,664,000
Rentals—		
Office, shop and garage space	2,456,000	2,609,000
Living quarters	419,000	355,000
Hangar	121,000	118,000
Other	1,383,000	1,277,000
	4,379,000	4,359,000
Concessions—		
Gasoline and oil	2,792,000	2,361,000
Other	4,267,000	3,669,000
	7,059,000	6,030,000
Miscellaneous revenue	2,747,000	2,755,000
Total revenue	$ 26,273,000	$ 23,808,000

The provision for "Airports and Other Ground Services—Operation and Main- nance" (included in Department of Transport Vote 30) was charged with expendi- res totalling $28,892,000 for the year 1966-67, an increase of $2,443,000 from the cor- ponding figure of $26,449,000 for the preceding year. The excess of expenditure on ways and airports (excluding new construction) over revenue received from airport erations was therefore $2,619,000, a decrease of $22,000 from the preceding year's ure of $2,641,000.

The operating results thus recorded are on a cash basis and do not include any vision for amortization of airport construction costs, interest on funds employed, or er costs such as a portion of the expenditure charged as air services administration, ich would have to be taken into consideration if the actual net costs of civil aviation port operations were to be determined. The Department does, however, maintain ounts on an accrual basis for its operations at 17 of the major airports, which together ount for approximately 90% of the revenue from civil aviation airport operations, l prepares therefrom periodic financial statements for management purposes. In pre- us years a consolidation of these statements, which included provision for depreciation civil aviation facilities (though not for the other costs referred to), was given as an endix to the Department's section of the Public Accounts.

In this year's Public Accounts, Volume II, pages 40.73 and 40.74, in lieu of this form of a consolidated statement there appear Consolidated Statements of Operating Results and Investment Position for 113 airports for the years ended March 31, 1967 and March 31, 1966. Provision was made for depreciation, interest on investment, administrative overhead, and employee fringe benefits. These statements show that the Department incurred a loss of $39,912,000 on operations for the year, an increase of $1,244,000 over the loss of $38,668,000 for the preceding year.

256. *The Board of Grain Commissioners for Canada.* This Board, consisting of a chief commissioner and two other commissioners appointed by the Governor in Council, is responsible for the administration of the Canada Grain Act, R.S., c.25, including the inspection, weighing, storage and transportation of grain, the fixing of tariffs, the establishment of standards and any other matter relating to the handling of grain.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1967	1966
Expenditure—		
Salaries, allowances, etc.	$ 5,238,000	$ 4,851,000
Employee benefits	342,000	291,000
Rent	200,000	211,000
Travel	185,000	187,000
Printing and stationery	84,000	63,000
Other	320,000	266,000
	6,369,000	5,869,000
Revenue—		
Inspection	3,876,000	3,084,000
Weighing	1,901,000	1,493,000
Registrations and cancellations	116,000	91,000
Licences	28,000	28,000
Other	14,000	20,000
	5,935,000	4,716,000
Excess of expenditure over revenue	$ 434,000	$ 1,153,000
Excess of expenditure over revenue provided for by—		
Department of Agriculture Vote 50	$ 5,954,000	$ 5,507,000
Canada Grain Act, R.S., c. 25, section 4	53,000	51,000
Government departments which provided certain major services without charge	362,000	311,000
	6,369,000	5,869,000
Less: Remittances to the Receiver General	5,935,000	4,716,000
	$ 434,000	$ 1,153,000

The increase of $387,000 in salaries, allowances, etc., was due mainly to increments in rates of pay and additional casual and overtime wages paid as a result of the movement of larger quantities of grain.

The increase of $1,219,000 in revenue reflects the results for the full year of a 50% increase in fees effective August 1, 1965 and the movement of larger quantities of grain.

257. *Canada Pension Plan Account.* The Canada Pension Plan, 1964-65, c.51, provides for a comprehensive program of contributory old age pensions and supplementary benefits for most persons in the work force in Canada, whether employees or self-employed, with the exception of those in the Province of Quebec who are covered by a parallel provincial plan.

Section 110 of the Act established the Canada Pension Plan Account within the accounts of Canada to which all contributions, interest and other amounts received under the Plan are credited and to which benefits and other payments under the Plan, including administration costs, are charged. Section 111 established within the accounts of Canada the Canada Pension Plan Investment Fund in which investments in provincial and federal securities are recorded.

The Act requires the Minister of National Health and Welfare to make an annual report to Parliament on the administration of the Act, including a statement showing amounts credited to or charged to the Canada Pension Plan Account and the Canada Pension Plan Investment Fund during the year. There is no provision in the Act for certification of this statement by the Auditor General, although such a provision would appear desirable.

The following is a summary of transactions in the Canada Pension Plan Account for the year ended March 31, 1967, and for the period January 1, 1966 (date of inception) to March 31, 1966:

	Year ended March 31, 1967	January 1, 1966 to March 31, 1966
Balance at beginning of year	$ 89,406,000	$ —
Receipts—		
Contributions from employers and employees	587,202,000	94,880,000
Interest on investments	11,007,000	—
Interest on the operating balance	1,077,000	37,000
Other income	617,000	—
	599,903,000	94,917,000
Disbursements—		
Administration expenses	8,377,000	5,511,000
Retirement benefit payments	51,000	—
	8,428,000	5,511,000
Excess of receipts over disbursements for the year	591,475,000	89,406,000
Balance at end of year	$ 680,881,000	$ 89,406,000
This balance comprised:		
Investment Fund	$ 615,521,000	$ 34,853,000
Operating balance	65,360,000	54,553,000
	$ 680,881,000	$ 89,406,000

Transactions are recorded in the Account on a cash basis and hence no amount has been included for contributions relating to periods prior to March 31, 1967 but received after the year-end or for accrued interest of $8,230,000 on investments.

The item "Other income" comprises $339,000 refunded by the Unemployment Insurance Commission in respect of an overcharge in the previous period of amounts relating to the registration of employees, $263,000 in penalties and interest on late payments of contributions and $15,000 derived from electronic data processing services performed for others.

Retirement benefit payments commenced in January 1967 and there were 3,475 recipients of pension benefits at March 31, 1967. Survivor benefits for eligible recipients will become payable in February 1968.

The following schedule shows the administration expenses charged to the Account during the year with respect to services provided to the Plan by various government agencies:

	Department of National Health and Welfare	Department of Finance	Department of National Revenue (Taxation)	Unemployment Insurance Commission	Total
Salaries	$ 836,000	$ 357,000	$ 3,295,000	$ 296,000	$ 4,784,000
Office expense, stationery and equipment	50,000	202,000	523,000	71,000	846,000
Travel	163,000	5,000	539,000	2,000	709,000
Accommodation	65,000	54,000	384,000	28,000	531,000
Employee benefits	74,000	20,000	344,000	14,000	452,000
Advertising	218,000	—	215,000	—	433,000
Other	147,000	46,000	372,000	57,000	622,000
	$ 1,553,000	$ 684,000	$ 5,672,000	$ 468,000	$ 8,377,000

Administration expenses, which increased by $2,866,000 to $8,377,000, reflect furthe developments in the establishment of the Canada Pension Plan organization. Increase of $3,014,000 in salaries and employee benefits, $683,000 in travel expenses and $310,00 for accommodation, offset by a decrease of $1,305,000 in advertising expense, mainly ac count for this increase.

In our 1966 Report (paragraph 231) we noted that the Treasury Board had give to the Department of National Health and Welfare, as the department administerin the Plan, the right to review charges made to the Canada Pension Plan Account b other departments. This review has not yet been made but an interdepartmental com mittee has been formed and, subsequent to the year-end, meetings were held to cor sider the manner in which the review is to be conducted.

The Act restricts the investments of the Plan to securities of Canada or th provinces, or securities guaranteed by the provinces, which are not negotiable, transfer able or assignable. The amount available for investment in provincial and federal secur ties at each month-end is determined by deducting from the uninvested balance in th

Account the estimated amount required to meet all payments during the following three months. This amount is allocated monthly to the various provinces in the ratio that contributions originating in each province bear to the total of all contributions. Any balance not required for the purchase of securities offered by a province is to be invested in securities of Canada. The rate of interest on securities purchased for the Investment Fund is determined generally by the average rate of interest on outstanding obligations of Canada at the time of purchase.

At March 31, 1967 securities of Canada and the provinces bearing interest at rates varying from 5.29% to 5.61% were held as follows:

Ontario	$ 352,697,000
British Columbia	89,484,000
Alberta	54,135,000
Manitoba	37,016,000
Saskatchewan	25,894,000
Nova Scotia	22,663,000
New Brunswick	17,679,000
Newfoundland	11,693,000
Prince Edward Island	1,998,000
Quebec	368,000
Canada	1,894,000
	$ 615,521,000

Judges and members of the Armed Forces and the Royal Canadian Mounted Police employed in the Province of Quebec are excluded from participation in the Quebec Pension Plan and have been brought under the Canada Pension Plan. As their employment is in the Province of Quebec, their contributions and those of their employer to the Canada Pension Plan have been allocated to that Province and at March 31, 1967 Canada Pension Plan moneys amounting to $368,000 had been invested in securities of the Province of Quebec.

258. *Canadian Government Elevators.* The Canadian Government Elevators comprise six elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton, Lethbridge and Prince Rupert, which are operated by the Board of Grain Commissioners for Canada under authority of section 166 of the Canada Grain Act, R.S., c.25, and Order in Council P.C. 1372 of August 19, 1925.

The Crown's equity in the Elevators at March 31, 1967 was $11,404,000 represented by: fixed assets, $10,652,000; working capital, $747,000; and advances for recoverable freight charges, $5,000.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1967	1966
Operating revenue—		
Elevation	$ 757,000	$ 581,000
Storage	316,000	357,000
Screenings	227,000	143,000
Drying	106,000	198,000
Cleaning	100,000	123,000
Other	71,000	80,000
	1,577,000	1,482,000
Expense—		
Salaries and wages	1,126,000	1,047,000
Employee benefits	70,000	64,000
Maintenance—buildings, plant and equipment	218,000	128,000
Grants in lieu of taxes	153,000	150,000
Power	110,000	112,000
Head office	81,000	80,000
Accounting and cheque issue	9,000	9,000
Other	32,000	48,000
	1,799,000	1,638,000
Operating loss, without provision for depreciation	$ 222,000	$ 156,000
Operating loss provided for by—		
Department of Agriculture Vote 50	$ 1,790,000	$ 1,585,000
Government departments which provided certain major services without charge	79,000	73,000
	1,869,000	1,658,000
Less: Remittances of revenue to the Receiver General	1,647,000	1,502,000
	$ 222,000	$ 156,000

The increase in elevation revenue was due to the increase in grain handled fro 20.8 million bushels in 1965-66 to 27.7 million bushels in 1966-67. The decline in reven from storage was a result of a faster turnover of export grain. Dry weather in the autun of 1966 reduced the use of the drying facilities at the elevators resulting in a decrea in revenue from this source. Cleaning revenue declined because of the improved con tion of grain received.

Salaries and wages increased by $79,000 as a result of the additional volume of gra handled and increments in rates of pay.

A loss of $91,000 during the year by the Lethbridge elevator was the twenty-seco consecutive annual loss, the accumulated deficits totalling $1,034,000.

259. *Canadian Government Printing Bureau.* The Canadian Government Printing Bureau, a branch of the Department of Defence Production, operates the printing plant in Hull, Que., and small printing units across Canada. Its operations are financed by means of a working capital advance (the Queen's Printer's Advance) provided for by section 37 of the Public Printing and Stationery Act, R.S., c.226. The Advance may not exceed four million dollars plus the amounts due by government departments and agencies.

The Crown's equity in the Advance at March 31, 1967 was $1,415,000 represented by inventories of work in process, materials and supplies of $1,440,000 and accounts receivable of $876,000 offset by accounts payable of $901,000.

The following is a summary of the results of operations for the year ended March 31, 1967:

Sales	$ 15,794,000
Cost of sales	14,531,000
Gross profit	1,263,000
Administration expense	690,000
	573,000
Discounts earned	8,000
Profit, transferred from the Advance account as revenue	$ 581,000

Comparable figures for the year ended March 31, 1966 are not available because the activities of the Canadian Government Supply Service in that period were also financed by the Queen's Printer's Advance.

Cost of sales does not include depreciation, interest on funds employed, accommodation, or the value of other services provided without charge by government departments. However, the full cost of equipment purchased during the year, $540,000, has been included (see paragraph 202 of this Report).

According to the Public Printing and Stationery Act, all printing, electrotyping, stereotyping, lithographing, binding and other work of a like nature required for the purposes of Parliament and the several Departments of the Government shall be executed at the Canadian Government Printing Bureau. However, because of lack of technical capacity in the Bureau and for other reasons, various types of printing contracts have been, for many years, negotiated with private commercial printing firms. The value of purchase orders entered into with these firms during the year exceeded $11 million.

260. *Canadian Government Supply Service.* This Service is financed by a revolving fund which was established on April 1, 1966 by Vote L18e, Appropriation Act No. 4, 1966, *1966-67, c.6,* "(a) for the purpose of acquiring and managing stores, for manufacturing, producing, processing or dealing in stores or materials, and (b) for the purchase and supply of repair services for office furniture and equipment, and for freight services, for federal government departments and agencies..." The purpose of the revolving fund has been further extended by Vote L13g, Appropriation Act No. 2, 1967, *1966-67, c.85,* to

include "(a) the procurement of insurance coverage at bulk rates on the movement c household effects; and (b) the financing, in the 1966-67 and 1967-68 fiscal years, of th cost of hotel accommodation in Montreal during the period of the Canadian Universal an International Exhibition, Montreal, 1967 . . ." The Fund may not exceed ten millio dollars plus the amounts due by government departments and agencies. At April 1, 196 the amount of $1,908,000 representing the portion of the Queen's Printer's Advanc Account relating to the Supply Service was transferred to the Supply Service Revolvin Fund. This included inventories of $1,894,000 and work in process of $1,500.

The following summary shows the operating results of Supply Service activities fo the year ended March 31, 1967:

Sales	$ 16,528,000
Cost of sales	16,516,000
Profit, transferred from the Revolving Fund as revenue	$ 12,000

The cost of sales does not include interest on funds employed, accommodation, the value of services provided without charge by government departments.

261. *Defence Production Revolving Fund.* Section 16 of the Defence Producti Act, R.S., c.62, established the Defence Production Revolving Fund for the purpose acquiring, storing, maintaining and transporting stocks of materials or defence suppli and providing working capital loans and advances to persons engaged in defence wo The balance of the Fund may not exceed $100 million, a limit which has not be approached in recent years.

The balance of the Fund at March 31, 1967 was $34 million which included $8 m lion representing the cost of the inventory of strategic materials and stolen coba The realizable value of these materials was estimated at about $3 million and the pote tial loss is commented on in paragraph 64 of this Report.

Also included in the year-end balance were loans of $10 million to manufactur to assist them in the acquisition of capital equipment. These loans, which in our opini were made contrary to section 16(2)(c) of the Defence Production Act, are commen on in paragraph 65 of this Report.

The Fund's operations for the past two years may be summarized as follows:

	Year ended March 31	
	1967	1966
Sales of defence supplies at cost	$ 33,095,000	$ 69,744,000
Interest income	$ 1,012,000	$ 473,000
Loss on strategic materials sold	76,000	5,000
Revolving Fund surplus for the year	$ 936,000	$ 468,000

The decrease in sales is due to the completion of the F-104G aircraft product program.

Interest income of $943,000 and profit of $1,000 on the sale of antimony have been transferred from the Revolving Fund as revenue and a further $69,000 of interest is to be so transferred when collected.

262. *National Film Board.* This Board was established in 1939 by the National Film Act, R.S., c.185, to initiate and promote the production and distribution of films in the national interest. The Act also established the National Film Board Operating Account in the Consolidated Revenue Fund, which has been credited with amounts provided by annual parliamentary appropriations for "Administration, Production and Distribution of Films and Other Visual Materials" (National Film Board Vote 1), amounts transferred from appropriations of other government departments in respect of work undertaken for them, and receipts from other operations of the Board including the sale and rental of films and other visual materials. With the exception of expenditures on capital equipment acquired for its own use which have been charged to National Film Board Vote 5, all expenditures of the Board have been charged to the Account. The Account, however, includes the cost of capital equipment acquired for the Canadian Government Photo Centre in Ottawa, as authorized by Vote L30, Appropriation Act No. 5, 1963, *1963, c.42.*

The equity of the Crown at March 31, 1967 was $3,637,000 compared with $2,785,000 at the end of the previous year. This is represented by a balance of $1,976,000 in the National Film Board Operating Account, including $165,000 for equipment of the Canadian Government Photo Centre, and capital equipment having a net book value of $1,661,000.

The following is a summary of expense and income for the past two years:

	Year ended March 31	
	1967	1966
Expense—		
Production of films and other visual materials for:		
National Film Board	$ 4,541,000	$ 3,866,000
Government departments and others	4,478,000	3,769,000
Distribution of films	3,199,000	2,844,000
Estimated value of major services provided without charge by government departments	1,334,000	1,166,000
Administration and general services	1,237,000	1,057,000
Depreciation on equipment	330,000	358,000
	15,119,000	13,060,000
Income—		
Sale of films and other visual materials	5,074,000	4,205,000
Rentals and royalties	821,000	818,000
Miscellaneous	68,000	41,000
Canadian Government Photo Centre—net profit for the year	63,000	15,000
	6,026,000	5,079,000
Net expense	$ 9,093,000	$ 7,981,000

	Year ended March 31	
	1967	1966
Net expense provided for by—		
Parliamentary appropriations	$ 7,429,000	$ 6,457,000
Government departments which provided major services without charge	1,334,000	1,166,000
Depreciation	330,000	358,000
	$ 9,093,000	$ 7,981,000

The gross expense increased by $2,059,000 or 16% over the total for the previou year. The greater part of this amount resulted from an overall increase of $1,384,00 in the combined production costs of films and other visual materials, of which $709,00 related to productions sponsored by government departments, agencies and others, an $675,000 to the regular production program.

Income increased by $947,000 or 19% over the previous year. Special projects fc the Canadian Corporation for the 1967 World Exhibition and the Centennial activitie of various government departments were contributing factors.

In our Reports for the past two years we have recommended that the value c major services provided without charge by government departments be integrated int the costing system to produce more accurate costs of production and administratio We have been advised that the study of this subject was commenced last year by th Board and officers of the Treasury Board but has not yet been completed. Remedi action has been taken in several areas where we have found the internal control to b weak. The duties of the internal auditor have been defined and a manual of accountir procedures and an internal audit program are being developed.

263. *Post Office.* The Post Office Department operates under the authority of tl Post Office Act, R.S., c.212, which provides that the Postmaster General shall administe superintend and manage the Canada Post Office.

The following is a summary of the results of operations for the past two years recorded by the Department in the Public Accounts:

	Year ended March 31	
	1967	1966
Gross postal revenue	$ 295,443,000	$ 275,994,000
Expenses paid from revenue	42,100,000	38,512,000
Net postal revenue	253,343,000	237,482,000
Other revenue—		
Miscellaneous	87,000	56,000
Estimated:		
Value of mail and other services provided without charge to other government departments	6,275,000	4,793,000
Interest on Money Order Account	2,511,000	2,631,000
Interest on funds in Savings Bank Account	1,158,000	1,226,000
	263,374,000	246,188,000

	Year ended March 31	
	1967	1966
Expenditure from parliamentary appropriations—		
Operations	$ 181,787,000	$ 160,948,000
Transportation	78,904,000	72,575,000
Administration, financial services, etc.	7,803,000	6,683,000
Interest on Savings Bank accounts	516,000	547,000
	269,010,000	240,753,000
Estimated value of major services provided without charge by other government departments—		
Accommodation	27,811,000	25,529,000
Contributions to:		
Public Service Superannuation Account	9,439,000	9,041,000
Canada Pension Plan and Quebec Pension Plan	2,857,000	—
Employee group surgical-medical insurance	1,137,000	1,103,000
Accounting and cheque issue services	638,000	650,000
Employee compensation	246,000	270,000
	311,138,000	277,346,000
Net operating deficit	$ 47,764,000	$ 31,158,000

The $19 million increase in gross revenue was due chiefly to increases of $12.5 million rom postage meters, $5 million from the sale of postage stamps and $1 million from hird class mail. The $28 million increase in expenditure from parliamentary appropria-ons was due mainly to increased salary costs of $20 million and an increase in costs f mail conveyance of $6 million.

In summarizing its operations for the year 1966-67 the Department has included ıree items which heretofore have not been taken into consideration in reporting the et operating deficit or surplus of the Post Office in the Public Accounts. These items, ›gether with the comparable amounts for the previous year, are:

	Year ended March 31	
	1967	1966
Revenue—		
Interest on Money Order Account at 5½%	$ 2,511,000	$ 2,631,000
Interest on funds in Savings Bank Account at 5½%	1,158,000	1,226,000
	3,669,000	3,857,000
Less:		
Interest paid on Savings Bank accounts at 2½%	516,000	547,000
Total additional revenue recorded (net)	$ 3,153,000	$ 3,310,000

Interest paid on Savings Bank accounts continues to be recorded as expenditure the Department of Finance and that Department benefits, through lower interest sts, from the large balances in the Money Order Account and the Savings Bank count.

We understand that the decision to take credit for additional revenue in this way was made by the Post Office Department without consultation with the Department of Finance which has given no recognition in its section of the Public Accounts to the additional costs which it must acknowledge if the Post Office Department is to receive credit for the value of the balances held in these two Accounts.

Such unilateral action by a department in presenting its figures is improper.

264. *Queen's Printer—publishing activities.* In accordance with the provisions of the Public Printing and Stationery Act, R.S., c.226, and Orders in Council made pursuant to the Public Service Rearrangement and Transfer of Duties Act, R.S., c.227, the Department of Public Printing and Stationery is charged with the function of procurement of print for books and publications and with the distribution of parliamentary, departmental and other publications. The operations include the printing of the Canada Gazette, the Statutes of Canada and other government publications.

A summary of expenditure and revenue for the year, together with comparable figures for the preceding year, follows:

	Year ended March 31	
	1967	1966
Expenditure from parliamentary appropriations—		
Printing and binding official documents	$ 2,156,000	$ 1,547,000
Distribution of official documents	1,358,000	1,072,000
Administration	249,000	204,000
Printing of Canada Gazette	236,000	182,000
Printing and binding the Statutes of Canada	22,000	49,000
	4,021,000	*3,054,000*
Estimated value of major services provided without charge by government departments—		
Carrying of franked mail	755,000	830,000
Accommodation	331,000	285,000
Contributions to Public Service Superannuation Account	49,000	53,000
Accounting and cheque issue	23,000	35,000
Contributions to Canada Pension Plan and Quebec Pension Plan	13,000	—
Employee surgical-medical insurance premiums	6,000	5,000
Employee compensation payments	—	1,000
	1,177,000	*1,209,000*
	5,198,000	4,263,000
Revenue—		
Proceeds from sales	1,922,000	1,626,000
Canada Gazette	192,000	200,000
Commissions on sale of publications issued by international organizations of which Canada is a member nation	37,000	49,000
Royalties from copyrights on government publications	41,000	27,000
Service fees for art work performed for other government departments	24,000	18,000
	2,216,000	1,920,000
Excess of expenditure over revenue	$ 2,982,000	$ 2,343,000

Expenditure for the year was $935,000 or 22% over that of the preceding year, due mainly to special publication projects for Centennial year. Included in the costs of printing and binding official documents are expenditures of $81,000 to cover the cost of documents distributed free to Members of Parliament and to organizations approved by the Governor in Council. Gross revenue increased by $296,000 due principally to increased sales of publications. The Department handles the distribution of publications for several government departments and agencies at an estimated annual cost of $150,000 without recovering these distribution costs from the departments concerned.

The Queen's Printer has been provided by Parliament with a revolving fund established by Vote L33a, Appropriation Act No. 10, 1964, *1964-65, c.34*, as amended by Vote L65e, Appropriation Act No. 4, 1966, *1966-67, c.6*, for the purpose of paying for the printing of publications by commercial printers. The revolving fund may not exceed $250,000 plus amounts due by government departments and agencies. The balance of the revolving fund at March 31, 1967 was $1,209,000 representing amounts owing by departments and agencies.

The sales operation of the Department is handled by a mail order office in Hull, Que., and by six Queen's Printer's bookshops located in the larger Canadian cities. In addition, sales counters are located in the Parliament Buildings and the National Gallery in Ottawa.

The retail value of inventories of publications held at the government bookshops and sales counters at March 31, 1967 was estimated by the Department at $458,000. However, there is no estimate available of the value of inventories in the mail order office at headquarters and of those on consignment to various agencies.

Although the Department maintains statistical records of sales made at the various bookshops, there are no adequate records for controlling the stock at each store or for determining precise information as to the results of operations. Most, although not all, of the stock is charged to the stores at retail price but there is no inventory record maintained at the store with which the stock on hand may be reconciled. In arriving at profit figures from the stores, "cost" is arbitrarily established at approximately 50% of the selling price, a method which will not disclose actual results of operations. There are thus no reliable figures available as to the operating results of the bookshops. Although the situation with respect to inventory control has been referred to in previous Reports, no substantial improvement was evident during the year. The Audit Office took a physical inventory of publications on hand at one of the larger bookshops but, because of the many errors in the headquarters' control accounts, the manner in which they were maintained and the lack of an effective internal control system, we were unable to reconcile the value of the stock counted with the control account.

In our previous Reports we have stated that no inventory control records had been established for publications held on a consignment basis from other countries and from international organizations of which Canada is a member. We also stated that inventories held by the Department had not been reconciled with the inventory balances reported by the consignors. Inventories of the consignment stock of the international organizations

at March 31, 1967 were purchased, with the approval of the Treasury Board, for an amount of $158,000. However, final settlements for these consigned stocks have not yet been made with the several international organizations.

A bulk publications store, which functions solely as a warehouse from which the mail order office, bookshops, sales agencies and consignment agencies draw their supplies, has been under the control and supervision of the Canadian Government Supply Service of the Department of Defence Production since 1965. The Department of Public Printing and Stationery has not been charged by the Supply Service for shipping and receiving services or for the substantial cost of controlling and supervising the bulk store.

265. *Royal Canadian Mint.* The Royal Canadian Mint operates under Part II of the Currency, Mint and Exchange Fund Act, R.S., c.315, and provides facilities for making coins of the currency of Canada, and for melting, assaying and refining gold.

The following is a summary of the results of operations for the past two years:

			Year ended March 31	
			1967	1966
Sales—	Other than coin	Coin at face value		
Gold	$ 83,428,000	$ 559,000	$ 83,987,000	$ 98,256,000
Silver	167,000	24,950,000	25,117,000	34,874,000
Bronze	66,000	2,361,000	2,427,000	2,624,000
Nickel	—	743,000	743,000	3,374,000
	$ 83,661,000	$ 28,613,000	112,274,000	139,128,000
Purchase price of metals sold or used for coinage			107,168,000	128,244,000
			5,106,000	10,884,000
Gold refining charges, etc.			324,000	334,000
Revenue from bullion and coinage			5,430,000	11,218,000
Other revenue:				
Numismatic receipts			2,725,000	11,111,000
Less: Face value of coin		$ 1,218,000		5,300,000
Metal in medallions sold		118,000		—
Shipping expense		76,000		405,000
			1,412,000	5,705,000
			1,313,000	5,406,000
Gold storage and other charges			118,000	48,000
			1,431,000	5,454,000
Total revenue			6,861,000	16,672,000

	Year ended March 31 1967	1966
Expenses of operation, maintenance and administration—		
Provided for by Department of Finance appropriations, $3,218,000 ($3,194,000 in 1965-66), and by government departments which provided major services without charge, $517,000 ($556,000 in 1965-66).		
Salaries and wages	$ 1,831,000	$ 1,998,000
Employee benefits	112,000	147,000
Supplies	806,000	232,000
Express on coin shipments	236,000	317,000
Repairs and maintenance	194,000	221,000
Accommodation	172,000	181,000
Construction or acquisition of equipment	135,000	408,000
Security	130,000	107,000
Power, light and gas	53,000	54,000
Other	66,000	85,000
	3,735,000	3,750,000
Net profit	$ 3,126,000	$ 12,922,000

The decrease in revenue of $9,811,000 from $16,672,000 to $6,861,000 during the year was due to a reduction in the number of coins issued from 444,335,538 pieces in 1965-66 to 339,054,483 pieces in the year ended March 31, 1967 and a decrease in the sales of uncirculated coin sets.

The increase in the cost of supplies is due to the issue of special coin sets in Centennial year.

266. *Unemployment Insurance Fund.* The Unemployment Insurance Act, 1955, c.50 (superseding 1940, c.44), provides for insurance against unemployment and for the maintenance of a national employment service. The portion of the Act relating to insurance against unemployment is administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the Governor in Council. The portion relating to the national employment service has, pursuant to the Government Organization Act, 1966, *1966-67, c.25*, since October 1, 1966 been the responsibility of the Minister of Manpower and Immigration.

In 1965 the Unemployment Insurance Commission was assigned responsibility for administration of the Transitional Assistance Plan under which workers in automotive manufacturing and parts industries who become unemployed as a result of the operation of the Canada-United States Agreement on Automotive Products may be given financial assistance in addition to that provided by unemployment insurance during the period required to adjust to new employment conditions.

The Act established the Unemployment Insurance Fund as a special account in the Consolidated Revenue Fund to which all contributions from insured employees and their employers, and the Federal Government contributions equivalent to one-fifth of the total employee-employer contributions, together with interest on investments, are credted, and to which benefits and other payments under the Act are charged.

Financial statements showing the state of the Fund at the end of the fiscal year and the operations of the Fund during the year are prepared annually by the Commission. In our 1960 and subsequent Reports attention was drawn to the fact that the Act does not require that these financial statements be audited. The Public Accounts Committee made reference to this in its Fifth Report 1961, Fourth Report 1963, Fourth Report 1964-65 and Fourteenth Report 1966-67 (see Appendix 1, item 8) recommending that these statements be required by statute to be prepared by the Commission and reported upon by the Auditor General. Although the Act has not yet been amended the Commission submits its financial statements to the Audit Office for examination, and the statements for the year ended March 31, 1967, together with our report thereon to the Minister of Labour, are reproduced in the Public Accounts, Volume II, pages 42.6 to 42.9.

The following is a summary of the Fund's transactions for the past two years, together with the year-end balances at the credit of the Fund:

	Year ended March 31	
	1967	1966
Receipts—		
Contributions from employers and employees	$ 343,853,000	$ 328,318,000
Contributions from Government of Canada	68,771,000	65,664,000
Income from investments	10,931,000	4,671,000
Penalties	172,000	146,000
	423,727,000	398,799,000
Disbursements—		
Benefit payments	307,007,000	297,813,000
Excess of receipts over disbursements	$ 116,720,000	$ 100,986,000
Balance at credit of the Fund	$ 258,203,000	$ 141,483,000

Disbursements from the Fund do not include the administration expense of the Commission which amounted to $44,436,000 in 1966-67 compared with $38,582,000 for the preceding year, an increase of $5,854,000. This expense was met to the extent of $37,334,000 ($31,968,000 for 1965-66) by funds provided by Unemployment Insurance Commission Vote 1 in accordance with section 10 of the Act and to the extent of $7,102,000 ($6,614,000 for 1965-66) by government departments which provided accommodation for the Commission's offices throughout Canada, contributions to the Public Service Superannuation and Canada Pension Plan Accounts and accounting and other services, without charge.

Salaries, wages and allowances, which include the cost of a general salary revision retroactive to the previous year, accounted for $4,464,000 of the increase of $5,854,000 in administration expense in 1966-67, notwithstanding a reduction of 141 in the number of regular employees on strength (from 5,248 at March 31, 1966 to 5,107 at March 31, 1967). The Department of Public Works assessment of the cost of accommodation for the Commission's offices was $304,000 higher than that for the

previous year as a result, primarily, of providing better and costlier accommodation to those offices which were expanded during the year to absorb the operations of nearby offices closed down. There was an increase of $505,000 in the cost of office stationery, supplies and equipment but this included $353,000 for supplies applicable to the previous year, most of which were for the employee registration program. An advertising program related to the extension of unemployment insurance coverage to agricultural workers accounted for $152,000 of the increase in administration expense.

In 1966-67 the Fund's excess of receipts over disbursements was $116,720,000 compared with $100,986,000 in 1965-66. This improvement is a continuation of the upward trend commenced in 1961-62, although a month-by-month comparison of the relationship between contributions and benefits with those of the corresponding months in the preceding year indicates a weakening of this trend. There was a slightly lower percentage of the insured population drawing benefit despite an increase in the number of initial and renewal claims allowed. However, this was offset by a small increase in the average weekly benefit rate paid during the year. The average number of benefit weeks paid on claims allowed remained constant. Comparisons follow:

	Year ended March 31	
	1967	1966
Average monthly percentage of the insured population drawing benefit...	5.2%	5.4%
Number of initial benefit claims allowed..............................	1,053,412	1,036,102
Average number of benefit weeks paid..............................	12.6	12.6
Average weekly benefit rate paid..................................	$24.92	$24.55

In keeping with past practice, we reported to the Chief Commissioner on each of the examinations of field offices made during the year. Prompt attention was given to all audit observations and corrective action was taken where required. Our examinations are designed primarily to test the adequacy of internal control over contributions, other income, benefit payments and the collection of overdue contributions, penalties and benefit overpayments. The extent to which adjudication of claims complies with the provisions of the Act and regulations is also tested. In appraising the validity of benefit awards, no attempt is made by the Audit Office to verify the accuracy or completeness of information regarding claimants contained in the records of the Commission, beyond questioning apparent deficiencies in these records. This aspect of the verification of claims is carried out by the Commission's own investigation-enforcement staff.

No attempt is made by this Office to audit the accounts of employers to see that employer-employee contributions are fully made to the Unemployment Insurance Fund and that each worker is credited with the proper contributions. These records are verified by the Commission's internal audit division.

Special Audits and Examinations

267. In addition to the examinations of the accounts of the departments and agency and proprietary Crown corporations referred to in this Report, the following special audits and examinations were made by the Audit Office during the year, most of them in accordance with specific directions contained in various statutes:

The Army Benevolent Fund Board
Atlantic Development Board
The Canada Council
The Custodian
Economic Council of Canada
Exchange Fund Account
Government of the Yukon Territory
Municipal Development and Loan Board
National Arts Centre Corporation
National Gallery of Canada
Public Printing and Stationery stores
The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children
Roosevelt Campobello International Park Commission
Royal Canadian Mint stocks

268. *The Army Benevolent Fund Board.* This Board was constituted by the Army Benevolent Fund Act, R.S., c.10, and consists of five members appointed by the Governor in Council. The Act provides for a special account in the Consolidated Revenue Fund called the Army Benevolent Fund to which certain moneys were credited and from which there shall be paid

> to or for the benefit of [World War II] veterans or their dependants or the widows or children or former dependants of deceased veterans such amounts as the Board may from time to time determine

together with the expenses incurred in carrying out the provisions of the Act.

The Act directs that the Board be governed by the following principles:

(*a*) plans shall be formulated on the assumption that there will be prospective beneficiaries for fifty years from the establishment of the Fund [in 1947];

(*b*) no grant is to be made by way of relief from the Fund where adequate relief is, at the time of the application, available from federal, provincial or municipal governmental sources;

(*c*) where grants are made to assist in the education of dependants of veterans or of children of deceased veterans, bursaries shall be granted contingent on continued need and satisfactory progress and not as competitive scholarships based on academic standing; and

(*d*) amounts paid out of the Fund are not recoverable, unless obtained by fraud or misrepresentation.

The accounts of the Board were examined for the year ended March 31, 1967 pursuant to section 11 of the Act and our report was submitted to the Chairman and members of the Board with a copy being provided to the Minister of Veterans Affairs.

Receipts amounted to $249,000 of which $237,000 was derived from interest on deposits with the Receiver General and $12,000 from interest on Canada bonds. Disbursements totalled $399,000 consisting of $300,000 in grants to or on behalf of World War II veterans and $99,000 for administrative and case work expense. The latter was a net amount after deducting a fee of $36,000 for management of the financial program of the Canadian Army Welfare Fund and a grant of $18,000 from the Department of Veterans Affairs to assist in defraying administrative expenses.

After absorbing the excess of disbursements over receipts amounting to $150,000, the balance of the Fund was $5,222,000 at March 31, 1967 of which $4,962,000 was on deposit with the Receiver General, $256,000 was invested in Canada bonds and $4,000 was represented by accountable advances and prepaid expense.

269. *Atlantic Development Board.* This Board was established by the Atlantic Development Board Act, 1962-63, c.10. The objects of the Board are to investigate programs and projects for fostering the economic growth and development of the Atlantic region of Canada and to make appropriate recommendations to the Minister of Transport. With the approval of the Governor in Council, the Board is authorized to enter into agreements to finance or assist in financing, out of the Atlantic Development Fund, to a maximum of $150 million, programs and projects that will contribute to the growth and development of the Atlantic region for which satisfactory financing arrangements are not otherwise available.

Pursuant to section 18 of the Act, we have audited the accounts and financial transactions of the Board and have reported thereon to the Board and to the Minister of Transport.

The following is a summary of the transactions in the Fund since its inception showing the types of projects approved and the funds disbursed to March 31, 1967:

	Approved by the Governor in Council	Funds disbursed	Outstanding commitments
Power	$ 60,413,000	$ 39,061,000	$ 21,352,000
Trunk highway systems	10,675,000	8,774,000	1,901,000
Basic industrial services	24,303,000	5,741,000	18,562,000
Research facilities	3,308,000	482,000	2,826,000
Miscellaneous	15,000	11,000	4,000
	$ 98,714,000	$ 54,069,000	$ 44,645,000

Disbursements from the Fund during 1966-67 amounted to $29,567,000 compared with $20,860,000 in the preceding year.

In addition to the assistance provided from the Atlantic Development Fund, the Federal Government has agreed to finance 50% of the cost of a second trunk highway program in the four Atlantic provinces (up to a limit of $30 million). This program, begun in 1965-66, is being financed by Department of Transport Vote 112 of that year with the transactions to March 31, 1967 being as follows:

Province	Approved by the Governor in Council	Funds disbursed	Outstanding commitments
New Brunswick	$ 9,000,000	$ 1,962,000	$ 7,038,000
Newfoundland	9,000,000	5,483,000	3,517,000
Nova Scotia	9,000,000	2,662,000	6,338,000
Prince Edward Island	3,000,000	545,000	2,455,000
	$ 30,000,000	$ 10,652,000	$ 19,348,000

The following is a summary of the Board's administrative expense and expenditure on technical and economic surveys and studies for the past two years:

	Year ended March 31 1967	1966
Administrative expense—		
Salaries and employee benefits	$ 463,000	$ 266,000
Travel and removal	51,000	39,000
Office equipment and supplies	26,000	22,000
Accounting services	24,000	4,000
Telephone and telegrams	20,000	9,000
Accommodation	18,000	12,000
Other	11,000	9,000
	613,000	361,000
Technical and economic surveys and studies	1,254,000	456,000
Total expenditure	$ 1,867,000	$ 817,000
Total expenditure provided for by—		
Department of Transport Vote 110	$ 1,825,000	$ 800,000
Government departments which provided major services without charge	42,000	17,000
	$ 1,867,000	$ 817,000

The increase of $197,000 in salaries and employee benefits was due to retroactive salary increases granted during the year, together with an increase in staff of 22, bringing the total employed at March 31, 1967 to 58.

Technical and economic surveys and studies undertaken or continued during the year comprised 46 separate projects. The expenditure ranged from $288,000 for a study of the tourist industry in Newfoundland, New Brunswick and Nova Scotia and $199,000 for a study of potash exploration in Nova Scotia to $400 for a study of the export trade of the Atlantic provinces.

270. *The Canada Council.* The Council was established by the Canada Council Act, 1957, c.3, to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences.

A report on the audit of the Council's accounts for the year ended March 31, 1967 was made to the Council and to the Secretary of State, as required by the Act.

The financial statements of the Council are not reproduced in the Public Accounts along with the statements of Crown corporations and government operating activities. If financial information additional to the following is required, reference should be made to the annual report of the Council.

An Endowment Fund of $50 million was established under the Act. The return on the investments of the Fund is used to meet administrative expenses and other expenditure for purposes of the Act (except for capital assistance grants to universities which are made from the University Capital Grants Fund). Permissible expenditures relate to the following in respect of the arts, humanities and social sciences: grants, scholarships and awards; sponsorship of exhibitions, performances and publications; exchanges with other countries and organizations or persons therein of knowledge and information; representation and interpretation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

In our 1965 Report reference was made to a $10 million unconditional grant from the Government of Canada which was received by the Council in April 1965 to be used for the general purposes set out in section 8 of the Canada Council Act. Moneys received from this grant were invested separately from the Endowment Fund and at March 31, 1966 an amount of $6,945,000 remained to be expended. That amount, together with $260,000 of income earned, was fully applied during the year ended March 31, 1967 to grants and awards paid through the Endowment Fund.

The following is a summary of the Endowment Fund operations for the year, together with comparable figures for the preceding year:

	Year ended March 31	
	1967	1966
Surplus at beginning of year	$ —	$ 50,000
Income—		
Interest and dividends	3,366,000	3,306,000
Balance of unconditional grant from the Government of Canada applied to grants and awards	7,205,000	3,476,000
	10,571,000	6,832,000
Expenditure—		
Grants	9,599,000	6,157,000
Canadian National Commission for UNESCO	166,000	135,000
Administrative and other expenses, less expenses recovered	806,000	540,000
	10,571,000	6,832,000
Surplus at end of year	$ —	$ —

A University Capital Grants Fund of $50 million was established by the Act in order that grants could be made to universities and similar institutions of higher learning by way of capital assistance for building construction projects intended for use in furthering the arts, humanities and social sciences. These grants are paid out of the principal and accumulated income of the Fund.

The following is a summary of the University Capital Grants Fund transactions for the year, together with comparable figures for the preceding year:

	Year ended March 31	
	1967	1966
Balance at beginning of year	$ 9,348,000	$ 10,299,000
Add:		
Interest earned on investments	557,000	581,000
Net profit on disposal of securities	26,000	15,000
	9,931,000	10,895,000
Deduct:		
Authorized grants	8,714,000	1,547,000
Balance at end of year	$ 1,217,000	$ 9,348,000

No allocation of interest and profits earned by the University Capital Grants Fund was made to qualifying institutions during the year.

In our 1966 Report (paragraph 230) reference was again made to the method employed in the allocation of the interest and profits, to the qualification of our reports to the Council and the Secretary of State, and to the Sixth Report 1964-65 of the Public Accounts Committee wherein it was recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund. As no action had been taken, the Public Accounts Committee in its Third Report 1966-67 reiterated its previous recommendation and requested the Council to formally ask the Government to give consideration to the required amending legislation with the objective of having it considered by Parliament prior to the final closing out of the University Capital Grants Fund (see Appendix 1, item 21). Our report to the Council and to the Secretary of State was again qualified with respect to this matter. We were later informed by the Acting Under Secretary of State that amending legislation to implement the recommendation of the Public Accounts Committee was being prepared by the Department of Justice.

The Council may, under section 20 of the Act, acquire money, securities or other property by gift, bequest, or otherwise, and may expend, administer or dispose of them subject to the terms, if any, upon which they are made available to the Council. Moneys or property received by the Council pursuant to this section are presented in a separate balance sheet designated "Special Funds". This balance sheet has two parts, the first of which relates to the comparatively small gifts which are accounted for within the Endowment Fund and the unconditional grant from the Government of Canada referred to

above, while the second part relates to the following funds from which only the income may be disbursed for the purposes designated:

1. A gift of $600,000 received from the Molson Foundation in 1963 to establish a capital fund referred to as the Molson Prize Fund, the income from which is to be used for making cash awards of $15,000, normally two in each year, to authors or creators of works or to persons who have rendered service to Canada in the fields of the arts, humanities and social sciences which will enrich the cultural or intellectual heritage of the nation, or make a noteworthy contribution to understanding and unity among Canadians of French and English descent.
2. Amounts totalling $1,335,000, received to March 31, 1966 in connection with a gift made in 1963 by an anonymous donor (now identified as the late Mrs. Dorothy J. Killam), were augmented by an additional $136,000 in 1966, bringing the total of this "Special Scholarship Fund" to $1,471,000. The gift consisted of securities having a par value of approximately $4,350,000, registered in the name of the Canada Council, redeemable over a period of some years. The income from the amounts received is to provide fellowship and scholarship grants to Canadians for advanced study or research in the fields of medicine, science, and engineering at universities, hospitals, research or scientific institutions or other equivalent or similar institutions in Canada.
3. A bequest, which may amount to $12,000,000, made by the late Mrs. Dorothy J. Killam, for the establishment of "The Izaak Walton Killam Memorial Fund for Advanced Studies" to provide scholarships "for advanced study or research at universities, hospitals, research or scientific institutes, or other equivalent or similar institutions both in Canada and in other countries in any field of study or research other than 'the arts' as presently defined in the Canada Council Act". A total of $6,943,000 in cash and securities had been received by March 31, 1967.

For investment purposes the Molson Prize Fund and the Special Scholarship Fund have been combined and are represented by one portfolio. The income of $124,000 produced by the investments was apportioned between the two funds on a quarterly basis according to the ratio of the principal and surplus of each fund at the beginning of the quarter to the total principal and surplus of the funds. A summary for the year follows:

	Molson Prize Fund	Special Scholarship Fund	Total
Surplus at April 1, 1966	$ 24,000	$ 46,000	$ 70,000
Income—Interest and dividends	36,000	88,000	124,000
	60,000	134,000	194,000
Expenditure—			
Grants and awards	30,000	—	30,000
Administration charge	2,000	—	2,000
	32,000	—	32,000
Less: Cancellation and reduction of awards approved in prior year	—	12,000	12,000
	32,000	(12,000)	20,000
Surplus at March 31, 1967	$ 28,000	$ 146,000	$ 174,000

No grants were made from the Special Scholarship Fund during the year as the Council expects that grants from this fund will, in future, be made in conjunction with those made from The Izaak Walton Killam Memorial Fund for Advanced Studies.

The bequest establishing The Izaak Walton Killam Memorial Fund for Advanced Studies includes, among others, the following provisions:

1. The fund shall not form part of the Endowment Fund or the University Capital Grants Fund or otherwise be merged with any assets of the Council.
2. The fund shall be invested in accordance with the advice of an Advisory Investment Committee provided for by the Will.
3. Direction, supervision and control of scholarships rest with a Scholarship Committee provided for by the Will.

Income earned by the Killam Memorial Fund, from its establishment during the year to March 31, 1967, amounted to $232,000.

271. *The Custodian.* In accordance with Regulation 6 of the Revised Regulations Respecting Trading with the Enemy (1943) as set out in the schedule to the Trading with the Enemy (Transitional Powers) Act, 1947, c. 24, the Custodian is appointed "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him". Pursuant to the provisions of the Government Organization Act, 1966, *1966-67, c. 25,* the Registrar General of Canada was designated to succeed the Secretary of State as Custodian of Enemy Property. The Deputy Registrar General of Canada is the Deputy Custodian. The Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. A report on the audit of the Custodian's accounts for the year ended December 31, 1966 was made to the Registrar General of Canada.

The assets under the administrative control of the Custodian, which were valued in accordance with bases explained in an addendum to his statement of assets and liabilities (Public Accounts, Volume II, page 36.10), increased by $93,000 to $2,892,000 at December 31, 1966. An appreciation of $271,000 in the value of remaining vested assets, offset in part by a transfer of $100,000 to the Minister of Finance for the War Claims Fund, and the excess of $48,000 in the book value of securities over the proceeds from liquidation, accounted for the greater part of the increase.

Under the Regulations referred to above, the Custodian may charge against all property investigated, controlled or administered by him, whether it has been vested in him or not, a fee for services rendered not exceeding 2% of the value of the property including the income therefrom. He is also permitted to employ such part of the property vested in him or the proceeds therefrom as may be necessary to pay the expenses incurred in the administration of the Regulations.

In addition to the income from fees, any income received from vested assets which consist of, or are converted into, cash or Canada bonds is credited to the Custodian's Office Administration Account, from which expenses of the Office are paid. We have drawn attention to this procedure in past years because it is not consistent with the treat-

ment of income arising from other assets vested in the Custodian. In February 1967 we were informed by the Deputy Custodian that on the basis of his interpretation of an opinion given by the Department of Justice in 1947 and discussions with officers of that Department, he was satisfied that the Custodian was acting within his legal rights in retaining the income from the bank deposits and Canada bonds included among the vested assets. Nevertheless, we are of the opinion that the Custodian is empowered to retain the income from any estate vested in him only to the extent that it is required to meet expenses incurred with respect to that particular estate plus a percentage of general expenses.

In our 1966 Report (paragraph 232) reference was made to the surplus of $4,837,000, largely invested in Canada bonds, which the Custodian had accumulated in his Office Administration Account from September 2, 1939 to December 31, 1965. It was stated that the Deputy Minister of Finance had informed us he was in agreement with our suggestion that consideration be given to transferring the surplus cash resources to the Consolidated Revenue Fund and that, as an interim measure, parliamentary authority would be sought for the transfer of a substantial portion of this surplus. On December 29, 1966, with Executive approval, the Custodian transferred to the Minister of Finance Canada bonds in the principal amount of $4,215,000. These were sold for $4,078,000, the proceeds being credited to the Consolidated Revenue Fund. The remainder of the surplus, $751,000 at December 31, 1966, was left with the Custodian to meet anticipated expenses and potential claims during the next three years.

The following is a summary of the income and expense of the Custodian for the year, together with comparable figures for the preceding year:

	Year ended December 31	
	1966	1965
Income—		
Fees on assets released from administration	$ 2,000	$ 9,000
Interest on investments	193,000	195,000
Interest on bank deposits	6,000	7,000
	201,000	211,000
Expense—		
Salaries	61,000	60,000
Office rent	9,000	12,000
Other	2,000	2,000
	72,000	74,000
Excess of income over expense	$ 129,000	$ 137,000

A substantial decrease in the amount transferred to the War Claims Fund and in the value of assets released in 1966, as compared with 1965, contributed to the reduction in income from fees on assets released from administration. The decrease of $3,000 in office rent resulted largely from a move to smaller quarters in 1965.

272. *Economic Council of Canada.* The Council, established by the Economic Council of Canada Act, 1963, c.11, to advise how Canada can achieve the highest possible levels of employment and efficient production, is appointed by the Governor in Council and comprises a chairman, two directors and twenty-five other members broadly representative of different sectors and groups in the Canadian economy.

Pursuant to section 20 of the Act, we have examined the accounts and financial transactions of the Council and have reported thereon, under date of June 21, 1967, to the Council and to the Prime Minister.

The following is a summary of the expense of the Council for the year ended March 31, 1967, together with comparable figures for the previous year:

	Year ended March 31	
	1967	1966
Salaries	$ 1,088,000	$ 863,000
Professional and special services	195,000	109,000
Accommodation	80,000	73,000
Employee benefits	60,000	51,000
Stationery, supplies and telephone	58,000	53,000
Travel	51,000	62,000
Publication of reports and studies	25,000	12,000
Miscellaneous	31,000	31,000
Total expense	$ 1,588,000	$ 1,254,000
Total expense provided for by—		
Privy Council Vote 20	$ 1,436,000	
Secretary of State Vote 40		$ 1,116,000
Government departments which provided major services without charge	152,000	138,000
	$ 1,588,000	$ 1,254,000

The expense for 1967 includes $105,000 for special studies undertaken in 1965-66 fo[r] a reference from the Government to the Council concerning the relationship of prices costs and incomes to sustained economic growth. Also included is an initial $4,000 fo[r] studies relating to a second reference concerning: interests of consumers; combines mergers and monopolies; patents, copyrights and other related matters.

273. *Exchange Fund Account.* This Account, established in 1935 "to aid in th[e] control and protection of the external value of the Canadian monetary unit", no[w] operates under Part III of the Currency, Mint and Exchange Fund Act, R.S., c. 31[5]

Pursuant to section 27 of the Act, we have audited the Exchange Fund Account an[d] the transactions in connection therewith for the year ended December 31, 1966 an[d] have reported thereon to the Minister of Finance. This section also requires a certificat[e] to be given annually to Parliament and I now certify that, in my opinion, the trans

actions in connection with the Account have been in accordance with the provisions of the Act and the records of the Account show truly and clearly the state of the Account.

The following is a summary of the transactions in the Account for the past two years:

	Year ended December 31	
	1966	1965
Balance at January 1	$ 2,880,833,000	$ 2,800,552,000
Deduct:		
Paid into the Consolidated Revenue Fund in accordance with section 24 of the Currency, Mint and Exchange Fund Act	62,833,000	63,552,000
Repayment of advances (net)	633,000,000	(81,000,000)
	695,833,000	*(17,448,000)*
	2,185,000,000	2,818,000,000
Add:		
Earnings on investments (to be paid into the Consolidated Revenue Fund)	58,336,000	62,833,000
Balance at December 31	$ 2,243,336,000	$ 2,880,833,000
Represented by—		
Canadian dollars	$ 807,000	$ 852,000
United States dollars and securities	1,090,581,000	1,614,799,000
International Monetary Fund notes	54,188,000	54,188,000
Gold	1,130,330,000	1,244,157,000
Suspense account	14,000	(25,000)
	2,275,920,000	2,913,971,000
Surplus	32,584,000	33,138,000
	$ 2,243,336,000	$ 2,880,833,000

The United States dollar holdings were valued at $1.08108 (par of exchange) at December 31, 1966 and as a result the surplus was $5,618,932 less than if the closing market rate of $1.08375 had been used.

274. *Government of the Yukon Territory.* The Yukon Act, 1952-53, c. 53, provides for the appointment by the Governor in Council of a chief executive officer for the Territory to be known as the Commissioner and for the election of a Council composed of seven members. The Commissioner in Council is empowered by the Act to make ordinances for the governing of the Territory in those fields normally within provincial jurisdiction.

The accounts and financial transactions of the Territory are subject to examination by the Auditor General of Canada in accordance with section 26 of the Act. He is required to report annually to the Council the result of his examination in a specified manner which includes certification of the financial statements specifically required to be included in the annual report presented to the Council by the Commissioner.

The following is a summary of expenditure and revenue of the Government of the Yukon Territory for the year ended March 31, 1967, with comparable amounts for the preceding year:

	Year ended March 31	
	1967	1966
Expenditure—		
Capital projects	$ 3,001,000	$ 2,727,000
Education	2,388,000	1,859,000
Roads, bridges and public works (maintenance)	1,926,000	1,452,000
Yukon Hospital Insurance Service	671,000	651,000
Welfare	541,000	486,000
Vocational training	526,000	351,000
Municipal and area development	483,000	337,000
Loan interest	409,000	332,000
Health	314,000	290,000
Other	1,298,000	1,331,000
	11,557,000	9,816,000
Revenue—		
Federal grants:		
Operating	1,824,000	2,111,000
Loan amortization	687,000	518,000
	2,511,000	*2,629,000*
Taxes	1,052,000	894,000
Liquor profits	1,018,000	927,000
Licences	301,000	291,000
Other	447,000	378,000
	2,818,000	*2,490,000*
Expenditure recoveries:		
Capital projects	1,464,000	1,063,000
Roads, bridges and public works (maintenance)	1,344,000	973,000
Education	535,000	469,000
Yukon Hospital Insurance Service	439,000	403,000
Vocational training	393,000	203,000
Other	414,000	384,000
	4,589,000	*3,495,000*
	9,918,000	8,614,000
Excess of expenditure over revenue	$ 1,639,000	$ 1,202,000

Loans repayable to the Federal Government at the close of the year amounted to $9,073,000, an increase of $533,000 over the preceding year's total of $8,540,000.

Under the Federal-Territorial financial agreement for the five-year period ended March 31, 1967, Canada agreed to make certain annual payments to the Territory in return for which the Territory agreed to refrain from imposing, levying or collecting individual and corporation income taxes and succession duties. One of the payments for which the agreement provided was an amortization subsidy in respect of certain loans obtained from the Federal Government. For the year ended March 31, 1967 an amount of $687,000 was involved, of which $348,000 was for the purpose of reducing the principal

of the loans and $339,000 related to interest. A result of this particular annual payment has been that the Federal Government has provided funds to cover the payment of interest to itself and also to repay amounts previously appropriated for the purpose of making the loans to the Territory.

275. *Municipal Development and Loan Board.* This Board was established by the Municipal Development and Loan Act, 1963, c.13. The purpose of the Act was to pronote increased employment in Canada through financial assistance by way of loans to nunicipalities, to an aggregate of $400 million, to augment or accelerate municipal capial works programs. The funds were allotted to the provinces in proportion to the populations as given in the 1961 census.

At March 31, 1966, the termination date for loan applications, a total of $399,251,000 ad been approved with respect to 2,469 loans to 1,292 municipalities. During the year djustments and cancellations reduced this to $396,908,000 involving 2,449 loans to 1,275 nunicipalities.

Approximately 35% of this assistance has been used for water and sewer projects, 6% for schools, roads, bridges and rapid transit systems and 19% for civic administration uildings, park developments, recreation facilities, etc.

Pursuant to section 19 of the Act, we have audited the accounts of the Board and ave reported thereon to the Board and to the Minister of Finance.

The Act, as amended, requires the Board to forgive payment of 25% of the principal mount of the loan where the municipal project was completed to the satisfaction of e Board prior to September 30, 1966; and where the municipal project was not comleted on or before September 30, 1966, to forgive payment of 25% of that portion of e principal amount of the loan that was made with respect to the cost, as determined y the Board, incurred on the project up to September 30, 1966.

Of the loans approved by the Board, $312,281,000 had been disbursed to March 31, 967, of which $72,940,000, being 25% of the loans against 1,941 projects, had been rgiven pursuant to section 11 of the Act. Outstanding loan commitments at March 1, 1967 amounted to $84,627,000.

The loans, which bear interest at from $5\frac{1}{4}\%$ to $5\frac{5}{8}\%$, are to be repaid to the Departent of Finance in annual or semi-annual instalments over terms not to exceed the eful life of the project up to a maximum of 50 years.

Expenses for the year amounted to $186,000, a decrease of $39,000 compared with e previous year. These expenses were met to the extent of $116,000 by funds provided Department of Finance Vote 45 and the balance of $70,000 represents the estimated lue of accommodation, accounting and other services provided without charge by govnment departments.

276. *National Arts Centre Corporation.* The National Arts Centre Act, 1966-67, 48, assented to on July 15, 1966, established the National Arts Centre Corporation nsisting of a Board of Trustees composed of a chairman, a vice-chairman, the persons

from time to time holding the five public offices named in the Act and nine other members. Pursuant to section 4 of the Act, the chairman and vice-chairman and the nine other members were appointed by Order in Council, P.C. 1966-2273 of December 1, 1966, for various specified terms.

The objects of the Corporation are to operate and maintain the National Arts Centre, to develop the performing arts in the National Capital region and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

The Board of Trustees held its first meeting on March 8 and 9, 1967 and appointed the Co-ordinator of the National Arts Centre as Director of the Centre for a term of five years from April 1, 1967. The Director is the chief executive officer of the Corporation.

Section 16 of the Act states that the accounts and financial transactions of the Corporation shall be audited annually by the Auditor General and a report of the audit shall be made to the Chairman of the Board. However, while the Corporation wa established in 1966, it did not have any financial transactions of its own until April 1 1967 and as a consequence there were no financial statements as at March 31, 1967.

Administration expense incurred in connection with the development and plannin of the National Arts Centre to March 31, 1967 was borne by the Office of the Co ordinator of the National Arts Centre. This expense and the construction costs of th National Arts Centre building during the same period are summarized below:

	Year ended March 31			
	1967	1966	1965	Total
Administration expense	$ 192,000	$ 119,000	$ 92,000	$ 403,000
Construction or acquisition of buildings, works, land and equipment	6,396,000	3,646,000	615,000	10,657,000
	$ 6,588,000	$ 3,765,000	$ 707,000	$ 11,060,000
Provided for by appropriations of the Department of the Secretary of State:				
Vote 25	$	$	$ 707,000	$ 707,000
Vote 30		3,765,000		3,765,000
Vote 22	192,000			192,000
Vote 23	6,396,000			6,396,000
	$ 6,588,000	$ 3,765,000	$ 707,000	$ 11,060,000

The construction of the National Arts Centre building is being carried out und the control and supervision of the Department of Public Works.

The transactions for the three years as summarized above have been examined required under section 67 of the Financial Administration Act in conjunction with o examinations of the Departments of the Secretary of State and Public Works.

277. *National Gallery of Canada.* This body was incorporated under the National Gallery Act, R.S., c. 186, for the development, maintenance, care and management of the National Gallery, the acquisition of works of art and generally the promotion of public interest in art in Canada.

Pursuant to section 9 of the Act, we have audited the accounts of the Gallery and have reported thereon to the Secretary of State.

The following is a summary of expenditure for the past two years:

	Year ended March 31	
	1967	1966
Administration and general services	$ 702,000	$ 604,000
Exhibitions	485,000	390,000
Development and care of collections	318,000	240,000
Educational and extension services	208,000	176,000
Research laboratory	101,000	88,000
Grants	8,000	8,000
	1,822,000	1,506,000
Works of art	520,000	832,000
Equipment	55,000	83,000
Total expenditure	$ 2,397,000	$ 2,421,000
Total expenditure provided for by—		
Parliamentary appropriation	$ 1,872,000	$ 1,862,000
National Gallery Special Operating Account	20,000	93,000
Government departments which provided major services without charge	505,000	466,000
	$ 2,397,000	$ 2,421,000

The operating expenses of the Gallery are met largely from parliamentary appropriations, although in some years amounts have also been paid from the National Gallery Special Operating Account in which are accumulated the proceeds of gifts, legacies, bequests, and other revenues. Funds for the acquisition of works of art are provided through the National Gallery Purchase Account to which are credited moneys appropriated by Parliament for that purpose. Funds from the Special Operating Account are also used to acquire works of art and $20,000 was expended from it for this purpose in 1966-67.

As stated in our Reports for the past five years, parliamentary control may be weakened by the supplementing of specific appropriations by expenditures from the Special Operating Account. Also, it is doubtful whether this Account should be credited with the proceeds from sales of slides and photographs, exhibition and lecture fees, and service charges, while costs of producing such revenues are met almost entirely from the parliamentary appropriation for operating expenses.

278. *Public Printing and Stationery stores.* Subsection (2) of section 34 of the Public Printing and Stationery Act, R.S., c. 226, provides that:

> The Auditor General shall, annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied.

With effect from April 1, 1966, all stationery, printing materials and supplies referred to in section 34(2) of the Act were taken over by the Canadian Government Supply Service and consequently there were no inventories to check in accordance with this provision as they no longer remained a charge to the Queen's Printer's Advance Account. (See also paragraph 133 of this Report.) The accounts of the Canadian Government Supply Service are audited in accordance with the requirements of the Financial Administration Act.

279. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* The Queen Elizabeth II Canadian Research Fund Act, 1959, c. 33, established this Fund to assist individuals or organizations to undertake or carry on research into the diseases of children and the causes, prevention and treatment of such diseases. A Board of Trustees consisting of a chairman and six members is responsible for the management and administration of the Fund. As required by the Act, the National Research Council of Canada provides, without charge, such secretarial and other administrative and technical services and facilities as may be required by the Board, whose headquarters are in Ottawa. A report on the audit of the Fund's accounts for the year ended March 31, 1967 was made to the Board and to the Prime Minister as required by the Act.

The Act provided $1 million for the Fund and permits the Board to accept gifts for its purposes. The following is a summary of the Fund's transactions for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1967	1966
Balance at beginning of year	$ 1,057,000	$ 1,060,000
Earnings on investments	53,000	59,000
	1,110,000	1,119,000
Awards approved during year	102,000	73,000
Less: Cancellation of awards approved in prior year	—	11,000
	102,000	62,000
Balance at end of year	$ 1,008,000	$ 1,057,000

Two categories of awards have been approved by the Board of Trustees, namely "Queen Elizabeth II Fellowships" and "Queen Elizabeth II Scientists". Awards in the first category are made to doctors of medicine or "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of

children. The value of a fellowship ranges from $3,700 to $7,000 per annum, depending on qualifications, plus a travel grant and children's allowance where applicable. Five new and three renewal fellowships totalling $53,500 were awarded during the year but four of these totalling $26,800 have since been declined.

The second category covers the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the Board of Trustees with regard to these appointments provide for payments of $10,000 per annum for the first three years and $5,000 per annum for the next following three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without further recourse to the Fund. One such appointment was made during the year and provision for the $45,000 which it is expected will be ultimately expended was made in the Fund's accounts. The Fund continues to support four appointees of prior years and the outstanding liability of $70,000 in this connection was included in the total provision of $171,000 for awards approved, appearing in the balance sheet of the Fund at March 31, 1967.

280. *Roosevelt Campobello International Park Commission.* The Commission was established by an agreement between Canada and the United States signed on January 22, 1964 to administer the Roosevelt Campobello International Park, on Campobello Island, N.B., as a memorial to President Franklin Delano Roosevelt. Implementing legislation in Canada is the Roosevelt Campobello International Park Commission Act, 1964-65, c.19. The Commission consists of six members, three appointed by the Government of Canada and three by the Government of the United States of America.

Proprietary equity at December 31, 1966 totalled $641,000, represented by: cash, $229,000; land and buildings, $430,000; other assets, $12,000; less accounts payable and contractor's holdback, $30,000.

All costs of maintenance and development of the Park are shared equally by the two countries. Operating expenses totalled $81,000 for the Commission's year ended December 31, 1966 compared with $57,000 for the nine-month period ended December 31, 1965. The major items of expense were: salaries, wages and employee benefits, $62,000; travel, $6,000; repairs and maintenance, $4,000; insurance, $1,600; consultant's fees and expenses, $1,600; and expense of the corner-stone ceremony, presided over by the Prime Minister of Canada and the President of the United States of America, $1,600.

Capital expenditures amounted to $213,000 of which $209,000 was for property improvements and $4,000 was for equipment.

281. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenue and expenditure accordingly form part of, and are examined with, departmental revenue and expenditure. However, section 20 of the Currency, Mint and Exchange Fund Act, R.S., c.315, requires that "the Auditor General shall, at least once in each year, inspect the store of bullion and coin at the Mint". We inspected these stores as at March 31, 1967 and reported thereon to the Deputy Minister of Finance. The stocks of bullion and metals at cost and coin at face value held by the

Mint at that date amounted to $18,048,000 comprising: gold, $3,550,000; silver, $12,165,000; bronze, $469,000; nickel, $1,787,000; and other metals, $77,000.

* * * *

I would like to record my appreciation to all members of the staff of the Audit Office for their loyalty and devotion to duty during the past year.

On January 1, 1967 the former Assistant Auditor General, Mr. Ian Stevenson, commenced his retirement after thirty-two years service in the Audit Office, for the last three of which he was seconded to the North Atlantic Treaty Organization Board of Auditors for Infrastructure Accounts. Mr. Stevenson enjoyed excellent relations with the various departments and was highly regarded by all members of our staff.

A. M. HENDERSON

Auditor General of Canada.

November 30, 1967.

APPENDICES

APPENDIX 1

RECOMMENDATIONS AND OBSERVATIONS BY THE STANDING COMMITTEE ON PUBLIC ACCOUNTS NOT YET IMPLEMENTED OR DEALT WITH BY EXECUTIVE ACTION

Fourth Report 1963—presented to the House on December 19, 1963

1. SECOND CLASS MAIL. The Committee expressed its belief that early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second class mail and requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent committees may give consideration to it.

   In its Fourth Report 1966-67 the Committee stated that it feels that there is something wrong when no action has been taken with respect to, and apparently very little consideration given to, its recommendation on this matter. The Committee first drew the matter to the attention of the House in its Third Report 1958 and, while minor changes have been made, the annual loss has continued to increase and the Committee is of the opinion that sufficient consideration has not been given to the solution of this problem. It considers it essential that the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail without this being done at the expense of other classes of mail, keeping in mind, however, the need of assistance to small independently-owned newspapers circulating in rural areas. *See paragragh 129 of this Report.*

2. DEPARTMENTAL OPERATING ACTIVITIES. The Committee reiterated its belief that it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts, provided this can be done without undue cost or staff increases. The Committee requested the Auditor General to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course. *See paragraph 251 of this Report.*

3. INTERNAL FINANCIAL CONTROL. The Committee requested the Auditor General to continue his examinations into the important area of internal financial control and to report further to the House on steps taken or which should be taken to improve financial management in the various departments, Crown corporations and other instrumentalities.

4. UNEMPLOYMENT ASSISTANCE. The Committee shared the opinion of the Deputy Minister of National Welfare and the Auditor General that consideration should be given by Parliament to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have resulted in varying interpretations. It believed that consideration should also be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field.

   In its Fourteenth Report 1966-67 presented to the House on March 2, 1967 the Committee referred to discussions it had with the Deputy Minister of National Welfare concerning the Canada Assistance Plan enacted by Parliament in 1966 which permits the

Federal Government to enter into agreements with the provinces to make contributions to the cost of providing assistance and welfare services, pursuant to provincial law, to all persons in need. The Committee believes that the new plan should provide a better overall co-ordination of assistance programs, although recognizing that, until the regulations under the plan are established and agreements entered into with the provinces, it is not possible to fully assess the adequacy of the new comprehensive approach to social assistance in overcoming administrative weaknesses previously criticized. The Committee asked the Auditor General to follow up this matter and report further to the House thereon in due course. *See paragraph 115 of this Report.*

Fourth Report 1964-65—presented to the House on July 28, 1964

5. FINDINGS OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION. The Auditor General referred to the numerous and widespread findings made public in 1962 and 1963 by this Royal Commission as a result of its examination into the organization and methods of operation of departments and agencies of the Government. He reminded the Committee that where administrative action has caused or contributed to waste of public money, it is his duty to report such cases as he considers should be brought to the notice of the House. He pointed out that while some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations, as for example, through the medium of internal auditing.

By the same token, he considers it to be his duty to study reports prepared by or for the managements of departments and agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings could be made, the Auditor General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to inquire why. On the other hand, he does not conceive it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be the sole responsibility of management.

With regard to the findings of the Royal Commission on Government Organization, the Auditor General believes it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving efficiency but because of the substantial savings of public funds which could result. It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament. *See paragraph 7 of this Report.*

6. THE FORM AND CONTENT OF THE ESTIMATES. In its Third Report 1963 tabled in the House on December 19, 1963 the Committee made four recommendations of which the following two have not yet been implemented:

(a) inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations; and

(b) inclusion of brief notes in the Estimates explaining proposed major increases in the size of staff establishments of all government departments and the Crown corporations and other public instrumentalities referred to under clause (a) above.

The Secretary of the Treasury Board explained to the Committee that he had not yet been able to discuss with any of the Crown corporations or public instrumentalities the practicability of including supporting financial information in the Estimates with respect to their operations. He undertook to do so and to advise the Auditor General for the information of the Committee.

The members of the Committee were glad to learn from the Secretary of the Treasury Board that he supported the recommendations made under this heading by the Auditor General in his Reports to the House. The Committee believes that there is room for improvement in the Estimates presentation designed to provide more informative description and more complete disclosure of pertinent supporting detail—information which, in the opinion of the Committee, is essential if Parliament is to be in a position to give the Estimates the close study and consideration they deserve. *See paragraph 8 of this Report.*

7. GOVERNOR GENERAL'S SPECIAL WARRANTS. The Committee recommended that a study be made of Governor General's special warrants.

8. UNEMPLOYMENT INSURANCE FUND AND ITS ADMINISTRATION. The Committee stated its opinion that it is in the public interest that the Government's consideration of the report of the Committee of Inquiry (which was tabled on December 20, 1962) be completed as soon as possible, and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

The Committee also reiterated the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General.

After having a report from departmental officers, the Committee in its Fourteenth Report 1966-67, presented to the House on March 2, 1967, indicated its understanding that legislation was to be brought before the House covering the report of the Committee of Inquiry. *See paragraph 266 of this Report.*

9. OFFICE OF THE AUDITOR GENERAL. In the opinion of the Committee, it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants, with respect to the legal duties.

In its Third Report 1966-67 the Committee reiterated its opinion that as an officer of Parliament the Auditor General should have the right to recruit the professional and senior staff he needs in the same independent manner as do other officers of Parliament and added that the Auditor General's establishment should continue to be set in the same manner as government departments. *See paragraph 10 of this Report.*

Fifth Report 1964-65—presented to the House on August 5, 1964

10. CANADIAN BROADCASTING CORPORATION—REPORT OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION. The Committee recommended that the Secretary of State table an official memorandum in the House presenting the views of the Canadian Broadcasting Corporation and its replies to each of the matters dealt with by this Royal Commission in its Report 19 and that this be done before the estimates of the Corporation are considered by the House. *See paragraph 224 of this Report.*

Sixth Report 1964-65—presented to the House on October 20, 1964

11. NATIONAL DEFENCE ADMINISTRATIVE REGULATIONS AND PRACTICES. The Committee expressed the hope that the changes which have been made or are in the process of being made in the Armed Forces administrative regulations will bring about the desired results. It requested the Auditor General to inform the House of any case where the changes appear to be inadequate or where abuse and waste of public funds develop. *See paragraphs 87 and 88 of this Report.*

12. UNAUTHORIZED USE OF CROWN-OWNED VEHICLES. The Committee recommended that the regulations be amended to provide for uniform penalties of sufficient magnitude, applicable to all personnel, to act as a real deterrent to the unauthorized use of Crown-owned vehicles.

13. FINANCIAL ASSISTANCE TO TOWN OF OROMOCTO, N.B. The Committee recommended to the Department of Finance that consideration be given to writing off to expense certain loans made to the Town. *See paragraph 196 of this Report.*

14. ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES. The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters.

15. PENSION AWARDS EFFECTIVE AT AN EARLY AGE. The Committee noted that the Department of National Defence has been conducting a general review of the benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act and that this review is continuing. The Committee requested the Auditor General to keep it informed as to the progress being made in the introduction of deferred pension benefits for servicemen retiring at comparatively early ages.

In its Sixth Report 1966-67 the Committee noted that the departmental studies were almost complete but that it would take some time for the Department to examine them and arrive at conclusions. The Committee requested the Auditor General to keep Members of the House informed of the progress being made. *See paragraph 92 of this Report.*

16. DISCRETIONARY AWARDS OF SERVICE PENSIONS. The Committee noted that the Department of National Defence is making a study in an endeavour to achieve a system under which the entitlements to all pensions would be specific which, if this were possible, would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. The Committee requested the Auditor General to advise it in due course of any action taken to revise the present system.

In its Sixth Report 1966-67 the Committee, while noting that the study had been stopped pending completion of integration of the Armed Forces, again expressed the opinion that it is desirable that entitlement to all pensions be specific and requested the Auditor General to continue to keep the Members of the House informed of the progress being made by the Department toward revising the present system.

17. ERRORS IN PUBLIC SERVICE SUPERANNUATION ACCOUNT PENSION AND CONTRIBUTION CALCULATIONS. The Committee expressed concern that this matter (first drawn to the attention of the Department of Finance by the Auditor General in 1959), which it regards as being very serious, is taking so long to be corrected. It requested the Auditor General to keep it fully informed.

In its Seventh Report 1966-67 the Committee noted that immediate steps were being taken to include in the internal auditing procedures of the Superannuation Branch an examination of the employee's contributions in relation to his salary and the documents on file. It requested the Auditor General to continue to keep it fully informed. *See paragraph 70 of this Report.*

18. INTEREST CHARGES ON LOANS TO THE NATIONAL CAPITAL COMMISSION. The Committee recorded how, in its Fourth Report 1963, it had expressed the view that since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

After hearing further evidence, the Committee stated it continues to hold the view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It pointed out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice. The Committee repeated its request that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

In its Seventh Report 1966-67 the Committee repeated its views on this matter and stated that it was glad to note the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General. *See also item 36 of this Appendix and paragraphs 196 and 243 of this Report.*

19. ACCOUNTS RECEIVABLE. The Committee expressed concern that weaknesses exist in the internal control with respect to accounts receivable and suggested that the Treasury Board have the matter studied with a view to ensuring that amounts due to the Crown are adequately recorded, that an accounts receivable control system is instituted and that collection procedures are tightened up and firmly enforced. *See paragraph 197 of this Report.*

20. INDIRECT COMPENSATION TO CHARTERED BANKS. The Committee recalled that, in its Fourth Report 1963, it had advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act.

The Committee reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965.

In its Seventh Report 1966-67 the Committee noted that notwithstanding this recommendation, Bill C-222, An Act respecting Banks and Banking, given first reading on July 7, 1966, includes a provision under subclause (2) of clause 93 designed to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest-bearing funds (currently an aggregate of $100 million) on deposit with them.

In the opinion of the Committee the proposed amendment does not meet the recommendation of the Committee and it requested the Department of Finance to provide to the Committee an explanation as to why it considers that an amount of $100 million should be left on deposit with the chartered banks free of interest, and why, if it considers that the chartered banks should be compensated for the service provided by them to the Government, it has not recommended that subsection (1) of section 93 of the Bank Act be amended to permit this, and also what other means of compensating the banks for services rendered were considered and the reasons why they are being discarded. *See paragraph 69 of this Report.*

21. THE CANADA COUNCIL. The Committee stated that, in its Fourth Report 1963, it had noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the "hotch-pot" or trust fund approach to this distribution. Because of doubts expressed by other legal counsel and the Auditor General as to the propriety of applying these bases, the Committee had postponed further consideration of the matter.

The Committee was informed that in the interim the Council had proceeded to allocate and distribute funds resulting from profits realized and interest earned on the foregoing bases. The Committee regarded the approach as a reasonable one, but because of the conflicting views held as to whether the action taken is ultra vires of subsection (2) (*b*) of section 17 of the Canada Council Act, recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund.

In its Third Report 1966-67 the Committee again reiterated its recommendation and requested the Canada Council to formally request the Government to give consideration to the required amending legislation with the object of having it considered by Parliament prior to the final closing out of the University Capital Grants Fund. *See paragraph 270 of this Report.*

Seventh Report 1964-65—presented to the House on December 7, 1964

22. SURPLUS ASSETS DISPOSAL. The Committee expressed deep concern that while physical inventory quantities are maintained and are readily available in respect of all the equipment and supply items maintained by the Department of National Defence, the purchase cost of the materials, including supplies and equipment stores at supply depots and at repair and overhaul contractors' establishments, is not available. In accordance with sound business practice, it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.

While the Committee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it.

Furthermore, the lack of any cost or carrying values has rendered it difficult for the Committee either to form any reasonable estimate of the value of the supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations approved for the Department of National Defence have aggregated an average of $1,646 million annually, of which $421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the Committee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The Committee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.

The Committee made four recommendations of which the following has not yet been implemented:

> that every effort be made by the Executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department.

Eighth Report 1964-65—presented to the House on December 7, 1964

23. AWARDS UNDER THE PENSION ACT. The Committee made the following recommendations designed to clarify the Act (*see paragraph 162 of this Report*):

(*a*) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";

(*b*) that the ambiguity under the Act whereby section 40 (2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;

(*c*) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;

(*d*) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;

(*e*) that, having regard for section 40 (1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45 (2) of the Act.

24. WAR VETERANS ALLOWANCES. The Committee made the following recommendations (*see paragraph 163 of this Report*):

(*a*) the Committee, after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases

had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;

(b) that the Act should be amended to recognize mortgages receivable and agreements for sale as either personal property or an interest in real property. In the meantime, where it appears to the Board that the terms of a mortgage receivable or agreement for sale are unrealistic in relation to the life expectancy of the individual and the going market rates, the Board should deem the return from these assets to be at a reasonable monthly rate;

(c) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

25. AMENDMENTS TO THE CUSTOMS ACT AND THE EXCISE TAX ACT. The Committee made four recommendations of which the following two have not yet been implemented (*see paragraphs 118 and 120 of this Report*):

(a) Sales of goods unclaimed at Customs—

that the practice of the Department in waiving all or part of whatever storage charges are applicable in order that at least the duties may be recovered be given statutory sanction by means of an appropriate amendment to section 23 of the Customs Act.

(b) Determination of 'sale price' for sales tax purposes—

that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

In reiterating these recommendations in its Fifth Report 1966-67 the Committee stated that it was disturbed that no attention had been paid to them. The Committee then made one additional recommendation:

(c) Refund of duty paid on goods diverted to use other than that for which they were imported—

that an amendment be made to the Customs Act to give statutory sanction to the practice of the Department of granting refunds of duty in cases where goods were entered under an item of the tariff, upon payment of duty at the rate applicable to such goods, and subsequently diverted to a use which would have entitled them to entry under a different tariff item had they then been imported.

26. GENERAL ELECTION EXPENDITURE. The Committee noted the practice followed over the years of making accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. It noted that the Chief Electoral Officer in his report to the Speaker of the House of Commons on the 1962 general election had recommended that the Canada Elections Act be amended to provide for the payment of an accountable advance to an election officer, limited to an amount which might be necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

The Committee recorded its support of this recommendation by the Chief Electoral Officer and expressed the hope that the amendment will be considered by Parliament at an early date.

27. ACCOUNTS NOT EXAMINED BY THE AUDITOR GENERAL. The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House. The Committee expressed its belief that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House.

The Committee therefore recommended:

(a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;

(b) that in cases where such other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the Government.

In its Third Report 1966-67 the Committee repeated this recommendation. *See also item 48 of this Appendix and paragraphs 217 to 219 of this Report.*

28. AUDIT OF THE OFFICE OF THE AUDITOR GENERAL. The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommended that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons. In its Third Report 1966-67 the Committee reiterated this recommendation.

Third Report 1966-67—presented to the House on June 28, 1966

29. SALARY OF THE AUDITOR GENERAL. The Committee noted that whereas the salaries paid to the senior deputy ministers and others were substantially increased with effect from December 1, 1965, no proposal had been made to the House by the Government to adjust the salary of the Auditor General whose salary is fixed pursuant to section 65(2) of the Financial Administration Act.

In order to render the Auditor General independent of the Executive in this regard, the Committee recommended that section 65(2) of the Financial Administration Act be amended to provide that the Auditor General shall out of the Consolidated Revenue Fund be paid a salary not less than the highest amount being paid to a senior deputy minister in the public service of Canada.

30. SEPARATE ACT OF PARLIAMENT. The Committee is of the opinion that all of the characteristics, duties and functions of the Office of the Auditor General should be set out in a separate Act of Parliament governing this Office instead of being a part of the Financial Administration Act.

The Committee requested the Auditor General to consult his legal advisers and to co-operate with them in drafting such an Act for submission to the Committee and to the Government.

31. STANDING COMMITTEE ON PUBLIC ACCOUNTS. The Committee has studied an arrangement in Australia whereby the Public Accounts Committee is appointed under an Act of Parliament instead of under terms of reference by the House of Commons as is the case in Canada.

The Committee believes that control of public expenditure of the size and complexity taking place in Canada today requires a Committee established by statute and recommended that legislation of this type be introduced in the House.

As this recommendation had not been adopted up to the time the Committee presented its Thirteenth Report 1966-67 to the House on March 1, 1967, the Committee recommended that as soon as possible after commencement of the second session of the twenty-seventh Parliament, the Standing Committee on Public Accounts be established as a Committee to remain in existence until dissolution of the twenty-seventh Parliament.

The Committee further recommended that the annual Public Accounts and the Report of the Auditor General be referred to the Public Accounts Committee at the time they are tabled in the House.

Fourth Report 1966-67—presented to the House on October 17, 1966

32. POST OFFICE SAVINGS BANK. The Committee noted that the Post Office Department was currently giving consideration to changes required in order that unclaimed balances in the accounts of the Post Office Savings Bank may be dealt with in a manner similar to that in which unclaimed balances in chartered banks are handled. The Committee concurred in this action and insists that the Department bring the matter to a conclusion as soon as possible.

Fifth Report 1966-67—presented to the House on October 19, 1966

33. POSSIBLE LOSS OF REVENUE WHEN GOODS LOSE TAX-EXEMPT STATUS. The Committee noted the manner in which the Customs and Excise Division of the Department of National Revenue places on owners and importers the onus for reporting any duty or tax which might become payable on non-tax paid equipment or goods. The Department maintains no control on such goods and consequently it is possible for equipment or goods to lose tax-exempt status without this coming to the attention of the Department, in which case there would be a loss of revenue to the Crown.

The Committee urged the Department to strengthen its procedures wherever possible so as to minimize any possible loss of revenue to the Crown.

34. DRAWBACK PAID ON GOODS DESTROYED AFTER RELEASE FROM CUSTOMS. The Committee was concerned to note that it had been the practice of the Department of National Revenue (Customs and Excise Division) to recommend to the Governor in Council that duty drawbacks or remissions be made on goods "destroyed in Canada at the expense of the owner under Customs supervision" when section 22(6) of the Financial Administration Act, as amended, directs that: "No tax paid to Her Majesty on any goods shall be remitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed."

The Committee is of the opinion that the Department should adopt a stricter attitude towards requests for refunds and remissions based on circumstances which lie outside of normal business practice.

35. TAX EXEMPTIONS FOR PARTICULAR GROUPS. Parliament from time to time grants exemptions from sales tax and/or other taxes to institutions such as hospitals or schools and groups of consumers such as loggers, farmers, etc. In the course of discussions with departmental officers and the Auditor General, there were indications that in some cases the benefits of such tax exemptions are enjoyed by those whom Parliament had not intended to assist. The Committee is aware that special exemptions increase the

complexities of administering the tax law but, nevertheless, it feels that the laws must be administered so as to ensure that exemptions granted by Parliament are applied only in the way Parliament intended.

The Committee urged the Customs and Excise Division of the Department of National Revenue in its administration of special exemptions always to see to it that the benefits from these exemptions go to, and only to, those for whom Parliament intended them.

Seventh Report 1966-67—presented to the House on October 26, 1966

36. LOANS AND ADVANCES REPRESENTING GRANTS TO CROWN CORPORATIONS. The Committee again criticized the practice of treating amounts paid to a Crown corporation, which did not have means to repay them, as loans and advances rather than expenditures of the Crown. The Committee was disturbed to learn that not only had the financing in this manner of the National Capital Commission not been reviewed by the Department of Finance as requested by it (see item 18) but the practice had been continued and further extended by the Department of Finance in 1965 when the House was asked to approve loans aggregating $14.250,000 to the Canadian Broadcasting Corporation to finance capital requirements which in the past were financed by grants charged to budgetary expenditure.

The Committee again expressed the opinion that expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada. The Committee noted the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General and expects the latter's report thereon in due course. *See paragraphs 67, 68, 196 and 224 of this Report.*

37. ADVANCES TO CANADIAN CORPORATION FOR THE 1967 WORLD EXHIBITION. The Committee took note of the circumstances under which the Government of Canada is purchasing securities issued by the Canadian Corporation for the 1967 World Exhibition and guaranteed by Canada and by Quebec. It noted that since the initial grants of $40 million, of which $20 million was provided by Canada under the Canadian Corporation for the 1967 World Exhibition Act, were fully paid over to the Corporation in 1965 the Corporation's needs have been financed almost exclusively by issuance of these securities, all of which have been purchased by Canada.

The Committee recommended that amendments to the existing legislation be placed before Parliament and the Legislature of the Province of Quebec so that the additional grants required can be made by the parties concerned, namely Canada, Quebec and the City of Montreal. The Committee directed the attention of the House to the fact that unless these additional grants are provided, the Corporation's presently estimated total requirement of $143 million (less $40 million already provided by Canada, Quebec and Montreal) will have been financed by loans from Canada and the Corporation will be burdened with the cost of additional interest and at the conclusion of the Exhibition will not have the cash resources necessary for payment of its indebtedness to Canada. *See paragraphs 67, 196 and 226 of this Report.*

38. PRAIRIE FARM EMERGENCY FUND. The Committee believes it is important that the matters referred to by the Auditor General in paragraph 46 of his 1964 Report and paragraph 52 of his 1965 Report be rectified and recommended that appropriate legislation be introduced as soon as possible. It requested the Auditor General to keep the matter before the House and the Committee. *See paragraph 59 of this Report.*

Eighth Report 1966-67—presented to the House on November 3, 1966

39. REPAIRS AND ALTERATIONS TO CANADIAN COAST GUARD SHIPS. The Auditor General, in paragraph 85 of his 1964 Report, drew attention to an instance where a ship repairer commenced operations under a contract involving a consideration of $43,346 but the work actually performed under the contract amounted to $130,851 before the ship was returned to service.

The Committee appreciates the problem faced by the Department of Transport when ships for which certain repairs have been contracted for require additional repairs, the need for which is not evident until the ship is opened up.

The Committee also appreciates the danger pointed out by the Auditor General that a shipyard could deliberately bid too low for the repairs specified in order to get the ship into its yard, and then recoup any loss sustained by including excessive profits in charges for the carrying out of the additional work that is found to be required after the ship has been opened up. The Committee feels that everything possible should be done to assure the Canadian taxpayer that the tender system in the case of ship repairs is working to ensure that costs of these repairs are not excessive, and it discussed with departmental officers various ways in which this continuing problem might be overcome.

The Committee recommended that, in addition to all other methods which the Department might be able to employ in controlling the cost of extras, ship repair contracts be drawn up to provide that when extras are involved they shall be undertaken on a cost-plus or a modified cost-plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with a proviso that no loss be suffered on the extras and with the entire contract subject to cost audit by government auditors.

40. COST OF SALVAGING SUNKEN VESSEL. The Committee is of the opinion that costs of recovering a sunken vessel, the oil cargo of which was a threat to waterfowl, marine life and coastal property, should be the responsibility of the owner of the vessel and recommended that the Department of Transport take immediate steps to introduce the necessary legislation so that the Crown may be protected from such costs in future. *See paragraph 159 of this Report.*

41. COST OF ABANDONED DESIGN PLANS FOR FERRY VESSEL. The Committee discussed with officers of the Department of Transport and the Canadian National Railways the additional payment of $20,000 which had to be made to the architects who were preparing plans for a ferry vessel to operate between Newfoundland and the mainland.

In the opinion of the Committee this additional expenditure resulted because the Department and the C.N.R. had not come to an agreement as to whether the ferry vessel was to be a full icebreaker or simply an ice-strengthened ship, and emphatically stated that the Department should ensure in future that agreement is reached before architects are asked to proceed with the preparation of plans.

Although the Treasury Board had approved payment to the architects of the final amount of $130,000 for the preparation of these plans, the Board had not been advised that this represented an increase of $20,000 over the amount which the architects had originally agreed to accept for the assignment.

The Committee feels very strongly that the Treasury Board must be given all facts when it is being requested to approve of contracts, and it urged the Department to see that future submissions to the Board are complete in this respect.

The Committee, recognizing that the ferries operated by the Canadian National Railways on behalf of the Department of Transport are in effect rail links, recommended that consideration be given to the assuming by the Railways of responsibility for the procurement of ferry vessels as is done with respect to rolling stock requirements.

42. INTERNAL AUDIT GROUP—DEPARTMENT OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT. When considering inadequate accounting and financial control procedures in the Department, the Committee was pleased to learn that the Department had been strengthened by a reorganization of its total administration, including the introduction of positions for financial and management advisers. The Committee suggested that the reorganization extend to the establishment of an internal audit group with as little delay as possible.

43. INADEQUATE CONTROL OF STORES AT NORTHERN LOCATIONS. Following consideration of the situation disclosed in paragraph 104 of the Auditor General's 1965 Report, the Committee stated that it regards this matter as being of the utmost importance and urged the Department of Indian Affairs and Northern Development to establish adequate controls on all stores in the North with the least possible delay. *See paragraph 77 of this Report.*

Tenth Report 1966-67—presented to the House on February 7, 1967

44. DEPARTMENT OF EXTERNAL AFFAIRS MISSIONS ABROAD. The Committee recommended that the Department establish a small internal audit staff without delay to carry out periodic examinations of the financial transactions and related administrative procedures at its embassies and missions abroad.

45. SALARIES AND WAGES PAID FOR WORK NOT PERFORMED. The Committee reviewed the practice of the Canadian Broadcasting Corporation in making payments to employees for scheduled hours during daily or weekly tours of duty in excess of actual hours of attendance, noting that such payments aggregate $450,000 per annum. The Committee considered that public funds should not be disbursed for work not performed and that managements of Crown corporations have a responsibility to ensure that the taxpayer's money is not used for non-productive work of this nature. The Committee recommended that such payments be eliminated by the management as and when the present union agreements come up for renewal. *See paragraph 60 of this Report.*

46. TRANSPORTATION ON LEAVE ALLOWANCE. The Committee recommended that the Department of National Defence take steps to bring its transportation allowance into line with current rail rates.

47. PROPOSED REMOVAL ALLOWANCE. The Committee recommended that the Department of National Defence give consideration to recommending the establishment of a cash allowance for members of the Armed Forces being transferred equivalent to 90% of the estimated costs of moving their furniture and that it advise the Chairman of the Committee and the Auditor General of its decision.

Eleventh Report 1966-67—presented to the House on February 7, 1967

48. CENTRAL MORTGAGE AND HOUSING CORPORATION—APPOINTMENT OF AUDITORS. The Committee strongly reiterated its previous recommendation that the Auditor General of Canada should be the auditor or a joint auditor of all Crown corporations, agencies and public instrumentalities owned or controlled by the Crown wherever they may be and

that he report thereon to the House. The Committee therefore recommended that the Auditor General of Canada be appointed the auditor or joint auditor of Central Mortgage and Housing Corporation. *See also item 27 of this Appendix and paragraphs 217 to 219 of this Report.*

49. CENTRAL MORTGAGE AND HOUSING CORPORATION—REPORTS OF THE AUDITORS. The Committee is of the opinion that it is entitled to be furnished with copies of all reports made by the external auditors of any Crown corporation and requested that the Minister responsible for Central Mortgage and Housing Corporation instruct the Corporation to make these available to the Committee for the fiscal years ended December 31, 1963 and December 31, 1964 and to do so without further delay.

50. CENTRAL MORTGAGE AND HOUSING CORPORATION—STATEMENT OF NET INCOME. The Committee believed that it would be more informative to Parliament if the figure shown on its Statement of Net Income and described as Administrative Salaries and Expenses were broken down by the Corporation in future into its major categories or areas of expense in accordance with generally accepted accounting practice and the practice followed by other Crown corporations on their financial statements.

Twelfth Report 1966-67—presented to the House on February 9, 1967

51. RECONSTITUTION OF FINANCIAL STRUCTURE OF THE NATIONAL HARBOURS BOARD. The Committee is concerned that there appears to be little prospect of the National Harbours Board being in a position to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter was to be dealt with by the Department of Finance and the Board within the next twelve months. *See paragraph 244 of this Report.*

52. FEDERAL LOSSES FROM BANKRUPTCIES. The Committee expressed surprise that the federal authorities had no knowledge of the revenues lost as a result of fraudulent bankruptcies and requested that these figures be obtained and provided to it.

Thirteenth Report 1966-67—presented to the House on March 1, 1967

53. MUNICIPAL WINTER WORKS INCENTIVE PROGRAM. The Committee discussed the practices set out in the 1965 Report of the Auditor General to the House with the Deputy Minister and officials of the Department of Manpower and Immigration and was informed that while a majority of these unsatisfactory practices continued in claims received during the fiscal year 1965-66, there had been a substantial improvement in the situation since April 1, 1966.

Members of the Committee expressed considerable concern at the type of questionable practices which had developed in the administration of the winter works incentive program and the Committee has requested the Auditor General to continue to watch the situation closely and advise the House thereon in due course. *See paragraph 85 of this Report.*

54. PARLIAMENTARY CONTROL OF EXPENDITURE. The Committee expressed the opinion that there is a weakening of parliamentary control when Parliament is unable to take the time to examine in detail the amounts being requested as interim supply particularly when these exceed the normal one-twelfth for each month for which interim supply is requested. It considers it unfortunate that the parliamentary rules do not provide for immediate consideration of the Estimates after they are presented to the House so that

the proposed spending can be approved and interim supply would not be required so extensively. It feels that the rules could and should be changed in this regard in order not only to strengthen parliamentary control of public funds but to give the Executive the clear mandate it deserves in the discharge of its heavy responsibilities.

The Committee submitted the following recommendations designed to strengthen parliamentary control of public expenditures in the future:

1. (*a*) that the business of the House be so arranged that consideration of the annual main estimates by the various committees of the House and by the House itself be completed within three months of the tabling of these estimates; and

   (*b*) that when consideration of all or part of any year's main estimates has not been completed by the commencement of the fiscal year to which they relate, thus making interim supply a necessity, the first interim supply bill include provision for a period of one, two or three months up to a date three months from the end of the month in which the estimates were tabled.

2. that there be no change in the Treasury Board's procedure whereby it is the agency which determines the Government's overall cash requirements in stated areas, e.g. salary increases. However, once this determination is completed and the individual departmental needs established, the Committee believes that the additional amount required by each department should be made to Parliament for its consideration and appropriation in the usual manner. *See paragraph 55 of this Report.*

Fourteenth Report 1966-67—presented to the House on March 2, 1967

55. APPLICATION OF CANADIAN HOSPITAL ACCOUNTING MANUAL TO FEDERAL HOSPITALS. The Deputy Minister of National Health informed the Committee that a financial management project team is presently studying this matter and it is expected that their recommendations will be implemented in 1967 or 1968. The Committee has asked the Auditor General to follow up this matter and report further to the House thereon in due course. *See paragraph 116 of this Report.*

APPENDIX 2

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE, BY DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES

Authorized and on Strength as at March 31, 1967
(with comparative figures as at March 31, 1966)

Employees authorized			Name of Department, Crown Corporation or other Instrumentality	Employees on strength		
March 1967	March 1966	Increase (Decrease)		March 1967	March 1966	Increase (Decrease)
			DEPARTMENTS (Note 1)—			
			Agriculture—			
598	513	85	Administration Branch	539	456	83
4,011	3,956	55	Research Branch	3,669	3,587	82
2,293	2,081	212	Production and Marketing Branch	2,138	2,049	89
1,868	1,729	139	Health of Animals Branch	1,760	1,626	134
1,250	1,254	(4)	Prairie Farm Rehabilitation Administration	1,062	1,070	(8)
60	75	(15)	Prairie Farm Assistance Administration	55	71	(16)
889	874	15	Board of Grain Commissioners	862	819	43
288	185	103	Canadian Government Elevators	284	157	127
11,257	*10,667*	*590*		*10,369*	*9,835*	*534*
22	18	4	Atomic Energy Control Board	22	18	4
238	221	17	Auditor General's Office	202	197	5
69	42	27	Board of Broadcast Governors	53	39	14
29	36	(7)	Chief Electoral Officer	29	36	(7)
			Defence Production—			
18	14	4	Deputy Minister's Office	13	16	(3)
1,112	1,069	43	Finance, Administration and Legal Branches	730	1,022	(292)
163	153	10	International Programs	237	156	81
1,196	980	216	Purchasing Services	1,184	886	298
880	871	9	Canadian Government Supply Service	867	675	192
			Canadian Government Printing Bureau—			
11	12	(1)	General Manager	4	12	(8)
70	51	19	Engineering Services	70	54	16
72	68	4	Financial Services	76	66	10
26	16	10	Industrial Relations Services	25	22	3
24	14	10	Research and Industrial Engineering	18	15	3
778	798	(20)	Printing Production (Main Plant)	693	671	22
555	491	64	Printing Production (Outside Plants)	555	500	55
			Canada Emergency Measures Organization—			
113	113	—	Emergency Measures	109	100	9
62	102	(40)	Emergency Measures College	53	98	(45)
5,080	*4,752*	*328*		*4,634*	*4,293*	*341*
2,899	2,631	268	Dominion Bureau of Statistics	2,695	2,585	110
			Energy Mines and Resources (formerly Mines and Technical Surveys)—			
414	319	95	Administration	386	308	78
844	810	34	Surveys and Mapping Branch	781	774	7
1,042	1,056	(14)	Marine Sciences Branch	947	1,005	(58)
484	454	30	Geological Survey	437	434	3
686	651	35	Mines Branch	647	627	20
119	106	13	Geographical Branch	105	103	2
202	182	20	Observatories Branch	192	180	12
70	57	13	Polar Continental Shelf Project	60	47	13
410	320	90	Water Resources Branch	370	305	65
181	74	107	Water Research Branch	125	52	73
40	29	11	Resources Development Branch	20	10	10
17	17	—	Dominion Coal Board	15	16	(1)
131	102	29	National Energy Board	114	90	24
4,640	*4,177*	*463*		*4,199*	*3,951*	*248*

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or other Instrumentality	Employees on strength		
March 1967	March 1966	Increase (Decrease)		March 1967	March 1966	Increase (Decrease)
			DEPARTMENTS—Continued			
			External Affairs—			
3,008	2,824	184	External Affairs	2,839	2,565	274
313	286	27	External Aid Office	274	190	84
12	12	—	International Joint Commission	11	11	—
3,333	*3,122*	*211*		*3,124*	*2,766*	*358*
			Finance—			
278	529	(251)	Administration	245	414	(169)
			Comptroller of the Treasury—			
213	197	16	Headquarters	204	148	56
923	517	406	Regional Offices	931	593	338
2,577	2,940	(363)	Treasury Offices	2,618	2,813	(195)
382	376	6	Audit Services Branch	344	335	9
113	120	(7)	Cheque Adjustment Division	121	115	6
459	444	15	Central Services Branch	516	446	70
30	33	(3)	Securities Deposit Division	30	33	(3)
404	401	3	Royal Canadian Mint	340	389	(49)
211	217	(6)	Superannuation Branch	192	186	6
43	43	—	Tariff Board	41	43	(2)
25	28	(3)	Guaranteed Loans Division	24	28	(4)
4	4	—	Inspector General of Banks	4	4	—
5	10	(5)	Municipal Development and Loan Board	5	8	(3)
5,667	*5,859*	*(192)*		*5,615*	*5,555*	*60*
			The decrease in employees authorized and on strength in the Administration Branch at March 31, 1967 results from the transfer to the Treasury Board effective October 4, 1966 of Treasury Board—Administration (256 positions) and Central Data Processing Service Bureau (64 positions), a decrease of 320 positions.			
			Fisheries—			
92	96	(4)	Administration	103	78	25
202	188	14	Field Services Administration	202	182	20
801	995	109	Conservation and Protection Service	806	788	338
303			Resource Development Service	320		
344	342	2	Inspection Service	290	310	(20)
299	272	27	Miscellaneous Services	190	256	(66)
855	804	51	Fisheries Research Board of Canada	735	701	34
2,896	*2,697*	*199*		*2,646*	*2,315*	*331*
			Forestry and Rural Development—			
190	165	25	Departmental Administration	184	139	45
1,684	1,184	500	Forestry Branch	1,501	1,101	400
160	138	22	Rural Development Branch	126	97	29
2,034	*1,487*	*547*		*1,811*	*1,337*	*474*
63	63	—	Governor General and Lieutenant-Governors	58	55	3
			Indian Affairs and Northern Development (formerly Northern Affairs and National Resources)—			
269	227	42	Departmental Administration	235	245	(10)
31	23	8	Northern Co-ordination Centre	23	—	23
102	58	44	Resources and Economic Development	89	56	33
			National Parks Branch—			
138	107	31	Administration	127	89	38
2,814	3,157	(343)	Operation and Maintenance of National Parks and Historic Sites and Monuments	1,594	2,175	(581)
143	133	10	Canadian Wildlife Service	137	100	37
			Northern Administration Branch—			
187	158	29	Administration	168	150	18
589	531	58	Education Division	548	529	19
195	197	(2)	Welfare and Industrial Division	168	166	2
1,032	866	166	Northwest Territories and Other Field Services	863	790	73
54	54	—	Yukon Territory	34	44	(10)

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or other Instrumentality	Employees on strength		
March 1967	March 1966	Increase (Decrease)		March 1967	March 1966	Increase (Decrease)
			DEPARTMENTS—*Continued*			
			Indian Affairs Branch—			
728	698	30	Administration	650	632	18
779	1,749	(970)	Development	699	1,622	(923)
2,261	2,286	(25)	Education	2.217	2,228	(11)
9,322	*10,244*	*(922)*		*7,552*	*8,826*	*(1,274)*
			Industry—			
2	14	(12)	Minister's Office	9	9	—
14	14	—	Deputy Minister's Office	13	14	(1)
15	—	15	Adjustment Assistance Board	4	—	4
45	53	(8)	Aerospace Branch	36	41	(5)
51	46	5	Area Development Agency	33	33	—
38	38	—	Apparel and Textiles Branch	30	28	2
50	52	(2)	Chemicals Branch	28	25	3
69	70	(1)	Electrical and Electronics Branch	58	50	8
53	53	—	Food Products Branch	28	24	4
77	—	77	Information and Promotion Branch	62	—	62
44	42	2	Machinery Branch	25	26	(1)
37	35	2	Marine and Rail Branch	21	18	3
40	41	(1)	Materials Branch	37	34	3
38	38	—	Mechanical Transport Branch	33	25	8
56	62	(6)	National Design Branch	45	50	(5)
5	—	5	Professional and Technical Services Branch	3	—	3
75	57	18	Program Advisory Group	51	40	11
10	—	10	Program Analysis and Control Branch	1	—	1
55	55	—	Wood Products Branch	36	32	4
774	*670*	*104*		*553*	*449*	*104*
125	121	4	Insurance	118	109	9
394	309	85	Justice (Note 2)	330	275	55
			Labour—			
306	288	18	Administration	257	257	—
85	72	13	Economics and Research Branch	72	68	4
80	57	23	Industrial Relations Branch	60	51	9
16	22	(6)	Special Services Branch	12	18	(6)
147	147	—	Annuities Branch	134	138	(4)
21	18	3	Accident Prevention and Compensation Branch	16	16	—
69	60	9	Labour Standards Branch	57	52	5
724	*664*	*60*		*608*	*600*	*8*
			Legislation—			
227	209	18	Senate	213	196	17
1,134	1,048	86	House of Commons	1,068	1,015	53
78	71	7	Library of Parliament	78	71	7
1,439	*1,328*	*111*		*1,359*	*1,282*	*77*
			Manpower and Immigration (Note 2)—			
483	434	49	Departmental Administration	450	331	119
2,021	2,051	(30)	Canada Immigration Division	1,813	1,843	(30)
5,284	5,161	123	Canada Manpower Division	5,039	4,348	691
291	60	231	Program Development Service	183	72	111
8,079	*7,706*	*373*		*7,485*	*6,594*	*891*
			National Defence (Civilian Staff)—			
811	739	72	Departmental Administration	683	621	62
39,993	43,579	(3,586)	Defence Services	39,630	41,084	(1,454)
2,833	2,881	(48)	Defence Research Board	2,699	2,654	45
43,637	*47,199*	*(3,562)*		*43,012*	*44,359*	*(1,347)*
87	77	10	National Gallery of Canada	76	70	6

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or other Instrumentality	Employees on strength		
March 1967	March 1966	Increase (Decrease)		March 1967	March 1966	Increase (Decrease)
			DEPARTMENTS—*Continued*			
			National Health and Welfare—			
490	434	56	Departmental Administration	440	397	43
819	754	65	Health Services Branch	763	689	74
72	57	15	Health Insurance and Resources Branch	55	47	8
3,367	3,548	(181)	Medical Services Branch	2,859	3,177	(318)
866	755	111	Food and Drug Branch	787	705	82
			Welfare Services—			
1,558	995	563	Income Security Branch	1,475	893	582
90	72	18	Welfare Assistance and Services Branch	69	47	22
54	44	10	Special Programs Branch	46	40	6
7,316	*6,659*	*657*		*6,494*	*5,995*	*499*
			National Research Council of Canada, including the Medical Research Council—			
1,438	1,378	60	Administration and Services	1,429	1,375	54
2,057	1,967	90	Scientific and Engineering Divisions	2,056	1,962	94
9	6	3	Medical Research Council	9	5	4
3,504	*3,351*	*153*		*3,494*	*3,342*	*152*
			National Revenue—			
			Customs and Excise Division—			
934	726	208	General Administration	820	672	148
341	249	92	Checking, Refunds and Drawbacks	306	242	64
1,264	1,205	59	Excise Duty and Excise Tax	1,172	1,137	35
151	151	—	Customs Inspection and Investigation	142	148	(6)
5,515	5,612	(97)	Ports	5,379	5,478	(99)
			Taxation Division—			
705	651	54	Head Office	607	588	19
2,698	2,512	186	Data Centre (Ottawa)	2,388	2,312	76
7,875	6,427	1,448	District Offices	7,350	5,867	1,483
22	22	—	Tax Appeal Board	22	22	—
19,505	*17,555*	*1,950*		*18,186*	*16,466*	*1,720*
			Post Office—			
1,104	1,027	77	Headquarters	1,037	973	64
1,097	990	107	District Offices	1,047	965	82
341	477	(136)	Railway Mail Service	330	350	(20)
30,330	28,395	1,935	Staff Post Offices	30,130	27,975	2,155
1,825	1,201	624	Casuals	1,825	1,201	624
34,697	*32,090*	*2,607*		*34,369*	*31,464*	*2,905*
			Privy Council—			
184	162	22	Privy Council Office	163	148	15
7	7	—	Prime Minister's Residence	6	6	—
123	111	12	Economic Council of Canada	115	105	10
314	*280*	*34*		*284*	*259*	*25*
			Public Archives and National Library—			
			Public Archives—			
94	92	2	General Administration and Technical Services	87	77	10
96	96	—	Historical Branch	96	79	17
53	53	—	Records Management Branch	51	45	6
			National Library—			
24	33	(9)	General Administration	16	20	(4)
70	55	15	Cataloguing Division	67	43	24
98	92	6	Reference Division	91	72	19
435	*421*	*14*		*408*	*336*	*72*
			Public Printing and Stationery—			
44	39	5	Departmental Administration	40	35	5
197	185	12	Distribution of official documents including print procurement	188	170	18
241	*224*	*17*		*228*	*205*	*23*

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or other Instrumentality	Employees on strength		
March 1967	March 1966	Increase (Decrease)		March 1967	March 1966	Increase (Decrease)
			DEPARTMENTS—*Continued*			
			Public Service Commission (Note 2)—			
18	33	(15)	Commissioners and Staff	17	17	—
129	120	9	Personnel and Administration Branch	85	83	2
899	710	189	Staffing Branch	730	693	37
138	147	(9)	Bureau of Classification Revision	126	126	—
96	71	25	Advisory Services and Appeals Branch	62	62	—
—	17	(17)	Pay and Standards Branch	—	10	(10)
1,280	*1,098*	*182*		*1,020*	*991*	*29*
			Public Works—			
2,534	2,357	177	General Administration	2,211	2,152	59
			Maintenance and Operation of Public Buildings and Grounds—			
2,286	2,533	(247)	Ottawa and Hull	1,986	2,186	(200)
4,083	4,338	(255)	Other than Ottawa and Hull	3,797	3,804	(7)
558	749	(191)	Harbours and Rivers Engineering Services	684	703	(19)
471	531	(60)	Roads, Bridges and Other Engineering Services	346	441	(95)
164	162	2	Testing Laboratories	155	149	6
10,096	*10,670*	*(574)*		*9,179*	*9,435*	*(256)*
			Registrar General (Note 2)—			
78	—	78	Departmental Administration	66	—	66
69	31	38	Bankruptcy Act Administration	52	26	26
88	74	14	Combines Investigation Act Administration	78	64	14
32	32	—	Corporations Branch	32	31	1
387	396	(9)	Patent, Copyright and Industrial Designs Division	390	382	8
58	54	4	Trade Marks Office	51	53	(2)
8	8	—	Restrictive Trade Practices Commission	8	8	—
720	*595*	*125*		*677*	*564*	*113*
			Secretary of State (Note 2)—			
92	107	(15)	Departmental Administration	75	107	(32)
74 }	231	17	Citizenship Branch	68 }	214	23
174 }			Citizenship Registration Branch	169 }		
466	434	32	Bureau for Translations	420	395	25
201	184	17	National Museum	185	150	35
18	—	18	National Arts Centre	18	—	18
17	18	(1)	Office of the Representation Commissioner	12	14	(2)
1,042	*974*	*68*		*947*	*880*	*67*
			Solicitor General (Note 2)—			
20	—	20	Departmental Administration	10	—	10
			Canadian Penitentiary Service—			
148	111	37	Headquarters	133	108	25
4,791	4,288	503	Institutions	4,262	3,714	548
190	183	7	National Parole Board	175	144	31
			Royal Canadian Mounted Police (Civilian Staff)—			
721	673	48	Headquarters	668	640	28
1,103	1,009	94	Land, Air and Training Divisions	1,060	980	80
12	12	—	Marine Services	11	11	—
6,985	*6,276*	*709*		*6,319*	*5,597*	*722*
			Trade and Commerce—			
726	633	93	Departmental Administration	639	559	80
807	710	97	Trade Commissioner Service	753	696	57
528	498	30	Standards Branch	492	471	21
285	228	57	Exhibitions Branch	256	220	36
487	275	212	Canadian Government Travel Bureau	474	262	212
80	70	10	Canadian Government Participation 1967 Exhibition	48	53	(5)
2,913	*2,414*	*499*		*2,662*	*2,261*	*401*

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or other Instrumentality	Employees on strength		
March 1967	March 1966	Increase (Decrease)		March 1967	March 1966	Increase (Decrease)
			DEPARTMENTS—*Concluded*			
			Transport—			
790	718	72	Departmental Administration	633	626	7
			Marine Services—			
2,308	2,162	146	Marine Administration and Marine Works	2,258	2,170	88
2,406	2,218	188	Marine Operations	2,306	2,129	177
565	494	71	Marine Regulations	425	408	17
143	91	52	Marine Hydraulics	91	83	8
			Air Services—			
584	476	108	Administration	479	454	25
2,048	1,769	279	Control of Civil Aviation and Air Traffic Control	1,709	1,604	105
3,019	2,539	480	Airports and Property Management	2,508	2,417	91
670	583	87	Construction Branch	686	664	22
2,844	2,658	186	Telecommunications and Electronics Branch	2,550	2,504	46
2,721	2,485	236	Meteorological Branch	2,353	2,236	117
638	522	116	Telecommunications Policy and Administration Bureau	516	493	23
116	97	19	Air Transport Board	103	89	14
188	187	1	Board of Transport Commissioners	180	179	1
28	28	—	Canadian Maritime Commission	26	27	(1)
			Atlantic Development Board—			
12	—	12	Office of the Executive Director	10	—	10
12	—	12	Administrative Division	12	—	12
14	23	(9)	Program Division	11	22	(11)
29	15	14	Planning Division	25	14	11
19,135	*17,065*	*2,070*		*16,881*	*16,119*	*762*
			Treasury Board—			
256	—	256	Administration	188	—	188
64	—	64	Central Data Processing Service Bureau	46	—	46
320	—	*320*		*234*	—	*234*
			The Treasury Board Department was created on October 1, 1966. The March 31, 1966 figures for the Treasury Board were included in Department of Finance—Administration.			
			Unemployment Insurance Commission—			
593	532	61	Head Office	439	413	26
801	809	(8)	Atlantic Region	723	748	(25)
1,981	1,951	30	Quebec Region	1,721	1,745	(24)
1,937	1,884	53	Ontario Region	1,688	1,690	(2)
834	780	54	Prairie Region	756	711	45
733	685	48	Pacific Region	624	596	28
6,879	*6,641*	*238*		*5,951*	*5,903*	*48*
			Veterans Affairs—			
1,257	1,346	(89)	Administration	1,130	1,244	(114)
10,628	10,870	(242)	Treatment Services	9,154	10,403	(1,249)
814	758	56	Welfare Services	762	712	50
360	360	—	Pensions Administration	334	332	2
656	679	(23)	Veterans' Land Act Administration	636	629	7
13,715	*14,013*	*(298)*		*12,016*	*13,320*	*(1,304)*
231,905	224,416	7,489	Total, Departments	215,899	208,683	7,216

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or other Instrumentality	Employees on strength		
March 1967	March 1966	Increase (Decrease)		March 1967	March 1966	Increase (Decrease)
			CROWN CORPORATIONS (Notes 1 and 3)—			
			Air Canada—			
			Operations Department—			
			Flying personnel	2,229	1,698	531
			Other personnel	7,486	6,909	577
			Sales Department	3,563	3,043	520
			Purchases and Stores Department	603	570	33
			Finance Department	646	552	94
			All other	379	338	41
14,906	*13,110*	*1,796*		*14,906*	*13,110*	*1,796*
			Atomic Energy of Canada Limited—			
71	19	52	Head Office	71	17	54
2,453	2,483	(30)	Chalk River Nuclear Laboratories	2,354	2,313	41
517	477	40	Commercial Products Division	517	477	40
610	467	143	Whiteshell Nuclear Research Establishment	563	421	142
674	454	220	Power Projects	674	406	268
122	180	(58)	Temporary—Construction workers, nurses, etc.	122	180	(58)
4,447	*4,080*	*367*		*4,301*	*3,814*	*487*
			Canadian Arsenals Limited—			
			Head Office	23	27	(4)
			Filling Division	399	398	1
			Dominion Arsenal Division	—	354	(354)
			Small Arms Division	368	228	140
790	*1,007*	*(217)*		*790*	*1,007*	*(217)*
			Canadian Broadcasting Corporation—			
563	556	7	Head Office	517	502	15
454	27	427	Expo '67	274	21	253
385	335	50	National Engineering	355	290	65
8,105	7,547	558	Regional Offices	7,881	7,325	556
98	101	(3)	Northern and Armed Forces Services	95	91	4
202	184	18	International Service	197	184	13
9,807	*8,750*	*1,057*		*9,319*	*8,413*	*906*
			Canadian Corporation for the 1967 World Exhibition—			
			Administrative—			
17	17	—	Executive	17	15	2
63	63	—	Secretariat	59	58	1
190	184	6	Finance and Administration	177	151	26
327	356	(29)	Installations	280	322	(42)
85	76	9	Exhibitors	75	64	11
134	134	—	Public Relations	110	99	11
164	161	3	Operations	145	116	29
			Operating—			
4	—	4	Secretariat	4	—	4
474	47	427	Finance and Administration	321	23	298
912	84	828	Installations	327	31	296
3,193	378	2,815	Operations	1,837	106	1,731
907	52	855	La Ronde	285	25	260
59	—	59	Exhibitors	35	—	35
279	—	279	Public Relations	147	—	147
6,808	*1,552*	*5,256*		*3,819*	*1,010*	*2,809*
			Canadian National Railways—			
			General	11,687	11,415	272
			Road Maintenance	16,089	15,057	1,032
			Equipment Maintenance	19,383	18,700	683
			Transportation	36,372	35,885	487
			Other Operations	8,835	9,319	(484)
92,366	*90,376*	*1,990*		*92,366*	*90,376*	*1,990*

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized March 1967	Employees authorized March 1966	Employees authorized Increase (Decrease)	Name of Department, Crown Corporation or other Instrumentality	Employees on strength March 1967	Employees on strength March 1966	Employees on strength Increase (Decrease)
			CROWN CORPORATIONS—*Continued*			
			Canadian Overseas Telecommunication Corporation—			
			Administrative	123	110	13
			Head Office Engineering	66	61	5
			Traffic Representatives	12	12	—
			Operating	485	485	—
686	*668*	*18*		*686*	*668*	*18*
21	13	8	Canadian Patents and Development Limited	21	13	8
475	192	283	Centennial Commission	461	125	336
			Central Mortgage and Housing Corporation—			
			Regular	2,080	1,950	130
			Contract and Casual	43	65	(22)
2,123	*2,015*	*108*		*2,123*	*2,015*	*108*
126	126	—	Crown Assets Disposal Corporation	113	115	(2)
			Defence Construction (1951) Limited—			
			Administration	87	101	(14)
			Engineering	37	36	1
			Technical	66	67	(1)
190	*204*	*(14)*		*190*	*204*	*(14)*
32	34	(2)	Eldorado Aviation Limited	32	34	(2)
			Eldorado Mining and Refining Limited—			
			Head Office and General Administration	33	33	—
			Beaverlodge Division	582	533	49
			Refining and Sales	156	157	(1)
			Research and Development	52	58	(6)
823	*781*	*42*		*823*	*781*	*42*
77	77	—	Export Credits Insurance Corporation	77	70	7
			Farm Credit Corporation—			
4	4	—	Executive Officers	4	4	—
14	13	1	Senior Management Officers	13	13	—
361	318	43	Technical	313	283	30
9	9	—	Professional	9	9	—
7	6	1	Specialist	5	5	—
290	286	4	Supervisory, Clerical and Stenographic	276	257	19
685	*636*	*49*		*620*	*571*	*49*
20	20	—	The National Battlefields Commission	17	16	1
			National Capital Commission—			
45	40	5	Administrative and Accounting	42	39	3
58	33	25	Planning and Design	43	25	18
101	89	12	Operations Branch	99	80	19
673	665	8	Prevailing rate (permanent and seasonal)	434	448	(14)
877	*827*	*50*		*618*	*592*	*26*
			National Harbours Board—			
			Head Office	73	59	14
			Harbours and Elevators—			
			Salaried	850	825	25
			Prevailing rate	1,387	1,406	(19)
2,310	*2,290*	*20*		*2,310*	*2,290*	*20*
			Northern Canada Power Commission—			
			Head Office and Edmonton Office	59	45	14
			Field Locations	227	205	22
286	*250*	*36*		*286*	*250*	*36*

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Concluded

Employees authorized			Name of Department, Crown Corporation or other Instrumentality	Employees on strength		
March 1967	March 1966	Increase (Decrease)		March 1967	March 1966	Increase (Decrease)
			CROWN CORPORATIONS—*Concluded*			
56	44	12	Northern Transportation Company Limited	56	44	12
			Polymer Corporation Limited and subsidiary companies—			
1,696	1,648	48	Salaried	1,618	1,527	91
2,495	2,342	153	Hourly rate	2,386	2,270	116
4,191	*3,990*	*201*		*4,004*	*3,797*	*207*
			The St. Lawrence Seaway Authority—			
			Administrative and Engineering	477	427	50
			Operations	806	807	(1)
1,724	*1,682*	*42*	Maintenance	441	448	(7)
				1,724	*1,682*	*42*
17	18	(1)	The Seaway International Bridge Corporation, Ltd.	17	18	(1)
143,843	132,742	11,101	Total, Crown Corporations	139,679	131,015	8,664
			OTHER INSTRUMENTALITIES (Notes 1 and 3)—			
1,201	1,129	72	Bank of Canada	1,201	1,129	72
61	41	20	The Canada Council	61	41	20
557	569	(12)	The Canadian Wheat Board	557	569	(12)
7	8	(1)	The Custodian	7	8	(1)
623	583	40	Industrial Development Bank	623	583	40
1,108	1,055	53	National Film Board	1,045	946	99
			Public Service Staff Relations Board—			
32	—	32	Administration	14	—	14
43	49	(6)	Pay Research Bureau	38	48	(10)
75	*49*	*26*		*52*	*48*	*4*
3,632	3,434	198	Total, Other Instrumentalities	3,546	3,324	222
379,380	360,592	18,788	Total, Departments, Crown Corporations and other Instrumentalities	359,124	343,022	16,102

NOTES:

(1) The figures appearing in this listing are based on information provided by the various departments, Crown corporations and other instrumentalities. They include the numbers of seasonal, part-time and casual employees actually on strength at March 31, 1967 and March 31, 1966 which for purposes of comparison have been included in the figures shown for "Employees authorized".

(2) The comparable figures at March 31, 1966 for employees authorized and on strength for the departments of Justice, Manpower and Immigration, Public Service Commission, Registrar General, Secretary of State and Solicitor General are the adjusted figures after taking into consideration the transfers of duties and functions that occurred in 1966-67 in respect of those departments and the former Department of Citizenship and Immigration.

(3) Where no establishments have been authorized by the executive boards of certain Crown corporations or other instrumentalities, the totals of the actual strength figures have been shown in the "Employees authorized" columns for purposes of comparison.

APPENDIX 3

SUMMARY OF EXPENDITURE BY STANDARD OBJECTS FOR THE FISCAL YEAR ENDED MARCH 31, 1967

(with comparative figures for the preceding fiscal year)

(in millions of dollars)

	1966–67	1965–66	Increase or decrease (–)
Civil salaries and wages	$ 1,196.3	$ 1,043.6	$ 152.7
Civilian allowances	23.3	21.9	1.4
Pay and allowances, Defence Forces and Royal Canadian Mounted Police	682.0	630.6	51.4
Professional and special services	140.2	121.6	18.6
Travelling and removal expenses	84.4	72.1	12.3
Freight, express and cartage	10.2	9.6	.6
Postage	8.0	7.8	.2
Telephones, telegrams and other communication services	41.9	39.4	2.5
Publication of departmental reports and other material	16.6	12.8	3.8
Exhibits, advertising, films, broadcasting and displays	37.9	26.0	11.9
Office stationery, supplies, equipment and furnishings	41.2	34.8	6.4
Materials and supplies	189.7	170.0	19.7
Buildings and works, including land—			
Construction or acquisition	316.3	292.5	23.8
Repairs and upkeep	74.4	70.9	3.5
Rentals	29.1	24.0	5.1
Equipment—			
Construction or acquisition	332.9	287.0	45.9
Repairs and upkeep	156.8	155.2	1.6
Rentals	8.6	6.9	1.7
Municipal or public utility services	81.2	78.7	2.5
Contributions, grants, subsidies, etc., not included elsewhere	1,378.2	1,021.8	356.4
Pensions, superannuation and other benefits	306.6	203.4	103.2
All other expenditure (other than special categories)	218.3	215.7	2.6
Interest on public debt, etc	1,190.5	1,110.8	79.7
Subsidies and special payments to the provinces	515.5	466.0	49.5
Family allowances, youth allowances and family assistance payments	606.9	601.0	5.9
Old age assistance, blind persons and disabled persons allowances, unemployment assistance and Canada Assistance Plan	191.9	147.3	44.6
Veterans' disability pensions, etc	195.9	185.5	10.4
Other payments to veterans and dependents	117.2	113.2	4.0
Government's contribution to the Unemployment Insurance Fund	68.8	65.7	3.1
Hospital insurance and general health grants	447.2	365.1	82.1
Trans-Canada Highway contributions	81.0	83.4	–2.4
Movement of mail by land, air and water	78.5	72.2	6.3
Deficits—government-owned enterprises	43.9	50.2	–6.3
	8,911.4	7,806.7	1,104.7
Less: Expenditure recovered	113.7	71.9	41.8
Net total expenditure	$ 8,797.7	$ 7,734.8	$ 1,062.9

EXHIBITS

(as published in the Public Accounts)

THE GOVERNMENT

STATEMENT OF EXPENDITURE AND REVENUE FOR
(with comparative figures for

EXPENDITURE

	Fiscal year ended March 31, 1967	March 31, 1966
Agriculture	$ 230,657,096	$ 186,263,616
Atomic Energy	60,228,082	54,450,175
Auditor General's Office	2,058,677	1,741,901
Board of Broadcast Governors	601,814	382,787
Canadian Broadcasting Corporation	115,243,073	97,458,915
Central Mortgage and Housing Corporation	20,122,952	21,571,958
Chief Electoral Officer	919,041	12,953,140
Defence Production	42,182,715	31,497,433
Dominion Bureau of Statistics	26,635,421	15,591,823
Energy, Mines and Resources	130,188,364	107,357,514
External Affairs	230,474,187	152,545,955
Finance—		
Public debt charges	1,190,523,254	1,110,857,197
Fiscal, tax-sharing, subsidies and other payments to provinces	515,522,814	465,993,282
Other expenditure	129,985,187	104,188,387
	1,836,031,255	*1,681,038,866*
Fisheries	41,471,351	34,526,476
Forestry and Rural Development	66,490,503	57,134,577
Governor General and Lieutenant-Governors	774,003	690,556
Indian Affairs and Northern Development	197,415,383	156,433,733
Industry	34,697,873	29,301,149
Insurance	1,652,187	1,512,059
Justice	12,175,037	11,224,377
Labour	24,911,054	23,993,711
Legislation	17,835,638	14,711,823
Manpower and Immigration	320,416,247	236,478,088
National Defence—		
Defence services	1,435,115,001	1,401,252,710
Defence research and development	44,202,185	41,643,088
Other expenditure	161,060,372	105,550,986
	1,640,377,558	*1,548,446,784*
National Film Board	8,016,817	6,891,335
National Gallery of Canada	1,872,361	1,815,626
National Health and Welfare—		
Family allowances	555,794,947	551,734,824
Other expenditure	760,147,505	623,387,205
	1,315,942,452	*1,175,122,029*
National Research Council, including the Medical Research Council	94,648,779	74,387,029
National Revenue	105,868,118	94,971,980
Post Office	268,493,659	240,206,458
Privy Council	7,897,880	6,080,981
Public Archives and National Library	2,663,017	1,973,514
Public Printing and Stationery	4,020,598	3,053,651
Public Service Commission	10,848,505	7,986,854
Public Service Staff Relations Board	29,434	
Public Works	294,372,635	275,147,218
Registrar General	5,529,033	4,591,027
Secretary of State	133,847,296	54,178,085
Solicitor General	162,279,320	138,834,027
Trade and Commerce	73,509,965	67,957,275
Transport	603,999,371	532,498,872
Treasury Board	153,358,110	104,417,257
Unemployment Insurance Commission	106,107,051	98,037,727
Veterans Affairs—		
Pensions	195,910,381	185,559,325
Other expenditure	194,910,164	183,777,839
	390,820,545	*369,337,164*
Total expenditure	8,797,684,457	7,734,795,525
Budgetary deficit	−421,502,613	−38,975,321
	8,376,181,844	7,695,820,204

H. R. BALLS,
Comptroller of the Treasury.

R. B. BRYCE,
Deputy Minister of Finance.

(This Statement is be found on pages 7.2 and 7.3 of the Public Accounts, Volume I)

EXHIBIT 1

)F CANADA

HE FISCAL YEAR ENDED MARCH 31, 1967
ıe preceding fiscal year)

REVENUE

	Fiscal year ended March 31, 1967	March 31, 1966
ax revenues—		
Income tax—		
Personal[1]	$2,473,820,311	$2,142,456,230
Corporation[1]	1,593,224,756	1,606,620,322
On dividends, interest, etc., going abroad	203,621,403	170,018,708
Excise taxes—		
Sales[1]	1,513,565,998	1,395,128,921
Other	315,580,981	296,178,098
Customs import duties	777,585,703	685,519,390
Excise duties	460,980,029	445,885,434
Estate tax	101,105,631	108,352,377
Miscellaneous	169,989	160,612
	7,439,654,801	*6,850,320,092*
on-tax revenues—		
Return on investments	519,140,346	438,254,129
Post Office—net postal revenue	253,342,482	237,482,296
Refunds of previous years' expenditure	17,196,633	18,918,607
Services and service fees	65,268,340	63,147,602
Proceeds from sales	21,501,757	22,934,877
Privileges, licences and permits	39,744,075	38,965,653
Bullion and coinage	5,430,009	11,217,545
Premium, discount and exchange	242,572	125,538
Miscellaneous	14,660,829	14,453,865
	936,527,043	*845,500,112*

[1]Excluding tax credited to:

	1966–67	1965–66
Old age security fund—		
Personal income tax	$576,600,000	$494,900,000
Corporation income tax	149,500,000	152,250,000
Sales tax	559,515,045	522,085,844

Total revenue	8,376,181,844	7,695,820,204

Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have ained all the information and explanations I have required and, subject to the comments in my report to the House of mmons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, ny opinion, it exhibits a correct view of the expenditure and revenue of Canada for the year ended March 31, 1967.

A. M. HENDERSON,
Auditor General

THE GOVERNMENT

STATEMENT OF ASSETS AND
(with comparative figures

ASSETS

	March 31, 1967	March 31, 1966	Net increase or decrease (−) during 1966-67
1. Current assets—			
(a) Cash, schedule A, page 9	$ 1,009,249,467	$ 759,080,004	$ 250,169,463
(b) Departmental working capital advances, schedule B, page 9	157,794,702	120,576,475	37,218,227
(c) Securities held for the securities investment account at amortized cost	197,689,061	81,475,697	116,213,364
(d) Other current assets, schedule C, page 10	29,232,480	54,861,735	−25,629,255
	1,393,965,710	*1,015,993,911*	*377,971,799*
2. Cash in blocked currency	2,136,260	1,002,400	1,133,860
3. Advances to the exchange fund account—(value of investments from advances on basis of official parity rates: March 31, 1967, $2,385,335,014; March 31, 1966, $2,726,282,289)	2,355,000,000	2,696,000,000	−341,000,000
4. Investments in United States dollar securities issued by other than the Government of Canada, schedule D, page 11	180,029,353	187,191,661	−7,162,308
5. Canada pension plan investment fund, schedule E, page 11	615,521,000	34,853,000	580,668,000
6. Investments held for the retirement of unmatured debt	3,151,500		3,151,500
7. Loans to, and investments in, Crown corporations, schedule F, page 11	6,460,733,930	5,553,149,458	907,584,472
Recovery likely to require parliamentary appropriations	267,930,855	105,925,113	162,005,742
	6,728,664,785	*5,659,074,571*	*1,069,590,214*
8. Loans to national governments, schedule G, page 13	1,201,581,177	1,215,490,449	−13,909,272
Recovery likely to require parliamentary appropriations		9,722,194	−9,722,194
	1,201,581,177	*1,225,212,643*	*−23,631,466*
9. Other loans and investments, schedule H, page 14—			
(a) Subscriptions to capital of, and working capital advances and loans to, international organizations	952,187,667	724,695,231	227,492,436
(b) Loans to provincial governments	123,515,007	96,723,106	26,791,901
(c) Municipal development and loan board advances (less reserve for forgiveness of indebtedness)	231,233,935	108,857,605	122,376,330
(d) Veterans land act fund (less reserve for conditional benefits)	311,408,833	256,191,461	55,217,372
(e) Miscellaneous	91,556,780	72,537,756	19,019,024
Recovery likely to require parliamentary appropriations	4,095,992	4,207,529	−111,537
	1,713,998,214	*1,263,212,688*	*450,785,526*
10. Securities held in trust, schedule I, page 18	50,852,748	51,956,505	−1,103,757
11. Deferred charges—			
(a) Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account	260,223,200	53,601,200	206,622,000
Public service superannuation account	189,453,200	93,620,600	95,832,600
Royal Canadian Mounted Police superannuation account	10,956,800	3,115,200	7,841,600
(b) Unamortized loan flotation costs, appendix No. 7, Section 9, page 15	121,212,572	106,217,789	14,994,783
	581,845,772	*256,554,789*	*325,290,983*
12. Capital assets	1	1	
13. Inactive loans and investments, schedule J, page 18	94,824,381	94,824,381	
Total recorded assets	14,921,570,901	12,485,876,550	2,435,694,351
14. *Less:* reserve for losses on realization of assets	−546,384,065	−546,384,065	
Net recorded assets	14,375,186,836	11,939,492,485	2,435,694,351
15. Net debt, represented by excess of liabilities over net recorded assets, schedule K, page 19	15,964,950,478	15,543,447,865	421,502,613
	30,340,137,314	27,482,940,350	2,857,196,964

The notes appearing on page 6 are an integral part of this Statement of Assets and Liabilities.

H. R. BALLS,
Comptroller of the Treasury.

R. B. BRYCE,
Deputy Minister of Finance.

(This Statement and the schedules and pages referred to therein are to be found in the Public Accounts
Volume I, Section 7, except where otherwise indicated)

EXHIBIT 2

)F CANADA

IABILITIES AS AT MARCH 31, 1967
at March 31, 1966)

LIABILITIES

	March 31, 1967	March 31, 1966	Net increase or decrease (−) during 1966–67
Current and demand liabilities, schedule L, page 19—			
(a) Outstanding treasury cheques	$ 382,624,889	$ 332,859,574	$ 49,765,315
(b) Accounts payable (that portion paid in April of the next following fiscal year)	454,510,346	380,308,616	74,201,730
(c) Non-interest-bearing notes payable to the international monetary fund and other international organizations	366,378,362	255,388,518	110,989,844
(d) Matured debt outstanding	30,670,121	27,324,686	3,345,435
(e) Interest due and outstanding	111,271,485	110,930,898	340.587
(f) Interest accrued	286,250,208	254,292,555	31,957,653
(g) Other current liabilities	39,272,685	37,731,247	1,541,438
	1,670,978,096	*1,398,836,094*	*272,142,002*
Deposit and trust accounts, schedule M, page 21	347,314,229	310,728,861	36,585,368
Annuity, insurance and pension accounts, schedule N, page 25	7,915,131,923	6,392,132,945	1,522,998,978
Undisbursed balances of appropriations to special accounts, schedule O, page 25	76,573,119	101,945,175	−25,372,056
Refundable corporation tax	196,157,131		196,157,131
Deferred credits, schedule P, page 26	142,827,514	138,119,215	4,708,299
Suspense accounts, schedule Q, page 26	50,949,273	31,390,931	19,558,342
Unmatured debt, schedule R, page 28—			
(a) Bonds	17,630,206,029	16,959,787,129	670,418,900
(b) Treasury bills	2,310,000,000	2,150,000,000	160,000,000
	19,940,206,029	*19,109,787,129*	*830,418,900*
Total liabilities	30,340,137,314	27,482,940,350	2,857,196,964

NOTE:
The indirect or contingent liabilities of the Government of Canada, consisting of railway securities guaranteed as to principal and interest, $1,275,947,986; other guarantees of $8,151,505,000; together with certain indeterminate guarantees, are listed on page 88.

Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have ained all the information and explanations I have required and, subject to the comments in my report to the House of nmons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and t, in my opinion, it exhibits a correct view of the financial position of Canada as at March 31, 1967.

A. M. HENDERSON,
Auditor General.

EXHIBIT 3

SUMMARY OF APPROPRIATIONS, EXPENDITURES AND UNEXPENDED BALANCES BY DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1967

Section (Volume II)	Department	Appropriations	Expenditures	Unexpended Balances	
				Lapsed	Carried forward (1)
		$	$	$	$
1	Agriculture	244,791,455	230,657,096	14,134,359	
2	Atomic Energy	60,233,164	60,228,082	5,082	
3	Auditor General's Office	2,067,666	2,058,677	8,989	
4	Board of Broadcast Governors	814,100	601,814	212,286	
5	Canadian Broadcasting Corporation	115,284,000	115,243,073	40,927	
6	Central Mortgage and Housing Corporation	20,122,954	20,122,952	2	
7	Chief Electoral Officer	920,134	919,041	1,093	
8	Defence Production	44,830,438	42,182,715	2,647,723	
9	Dominion Bureau of Statistics	28,327,091	26,635,421	1,691,670	
10	Energy, Mines and Resources	(2) 136,910,776	130,188,364	6,722,412	
11	External Affairs	240,366,984	230,474,187	3,357,105	6,535,69
12	Finance	(3) 1,843,763,944	1,836,031,255	4,608,378	3,124,31
13	Fisheries	43,759,402	41,471,351	2,288,051	
14	Forestry and Rural Development	73,493,506	66,490,503	7,003,003	
15	Governor General and Lieutenant-Governors	802,865	774,003	28,862	
16	Indian Affairs and Northern Development	201,785,317	197,415,383	4,369,934	
17	Industry	41,834,161	34,697,873	7,136,288	
18	Insurance	1,658,261	1,652,187	6,074	
19	Justice	12,490,717	12,175,037	315,680	
20	Labour	(4) 26,997,587	24,911,054	2,086,533	
21	Legislation	17,981,397	17,835,638	145,759	
22	Manpower and Immigration	(5) 379,681,107	320,416,247	15,234,061	44,030,79
23	National Defence	1,644,598,750	1,640,377,558	4,221,192	
24	National Film Board	8,017,200	8,016,817	383	
25	National Gallery of Canada	1,899,200	1,872,361	26,839	
26	National Health and Welfare	1,327,957,519	1,315,942,452	12,015,067	
27	National Research Council, including the Medical Research Council	94,958,000	94,648,779	309,221	
28	National Revenue	108,933,332	105,868,118	3,065,214	
29	Post Office	269,547,126	268,493,659	1,053,467	
30	Privy Council	8,346,339	7,897,880	448,459	
31	Public Archives and National Library	2,695,000	2,663,017	31,983	
32	Public Printing and Stationery	4,733,200	4,020,598	712,602	
33	Public Service Commission	12,637,000	10,848,505	1,788,495	
34	Public Service Staff Relations Board	44,700	29,434	15,266	
35	Public Works	307,158,706	294,372,635	12,786,071	
36	Registrar General	6,045,966	5,529,033	516,933	
37	Secretary of State	139,960,890	133,847,296	4,792,594	1,321,00
38	Solicitor General	172,778,960	162,279,320	10,499,640	
39	Trade and Commerce	75,803,758	73,509,965	2,293,793	
40	Transport	(6) 622,732,757	603,999,371	18,733,386	
41	Treasury Board	(7) 160,979,301	153,358,110	7,621,191	
42	Unemployment Insurance Commission	106,866,557	106,107,051	759,506	
43	Veterans Affairs	399,610,474	390,820,545	8,789,929	
		(8) 9,015,221,761	8,797,684,457	162,525,502	55,011,8

(1) Available for expenditure in subsequent fiscal years: Department of External Affairs vote 35, $6,535,692, Departmen of Finance 1965-66 vote 50b, $3,124,311, Department of Manpower and Immigration vote 6c, $44,030,799 and Department o the Secretary of State vote 27a, $1,321,000.

(2) Includes $7,500 carried forward from vote 62d Department of Energy, Mines and Resources 1965-66 estimates.

(3) Includes $22,000,000 carried forward from vote 50b of Department of Finance 1965-66 estimates.

(4) Includes $15,388,000 carried forward from vote 8d Department of Labour 1965-66 estimates.

(5) Includes $39,170,457 carried forward from vote 6d Department of Manpower and Immigration 1965-66 estimates.

(6) Includes $7,904,553 carried forward from vote 112 of Department of Transport 1965-66 estimates.

(7) Includes $4,338,560 carried forward from vote 15 Department of Finance 1965-66 estimates.

(8) In addition, parts of appropriations in the amount of $377,427 in respect of the Department of Agriculture and expenditur in a similar amount were transferred to "other loans and investments".

H. R. BALLS,
Comptroller of the Treasur

Auditor General's Certificate

The accounts relating to the expenditures as set forth in the above Statement have been examined under my direction an subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a corre summary for the year ended March 31, 1967.

A. M. HENDERSON,
Auditor General.

(This Summary is to be found on page 8.2 of the Public Accounts, Volume I, and the sections referred therein are those in the Public Accounts, Volume II)

SUMMARY OF REVENUE BY MAIN CLASSIFICATIONS AND DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1967

Section (Volume II)	Department	Tax revenues	Return on investments	Bullion and coinage	Postal revenue	Privileges, licences and permits	Proceeds from sales	Services and service fees	Refunds of previous years' expenditure	Miscellaneous	Premium, discount and exchange	Total
		$	$	$	$	$	$	$	$	$	$	$
1	Agriculture		649,243			1,516,884	1,630,081	10,647,491	279,618	99,225		14,822,542
2	Atomic Energy		559,022							3,000		562,022
3	Auditor General's Office							13,903	856	1		14,760
4	Board of Broadcast Governors									350		350
6	Central Mortgage and Housing Corporation		129,673,462				3,758,211		2,004,288	993,648		136,429,609
7	Office of the Chief Electoral Officer								214	1,600		1,814
8	Defence Production		8,946,874			1,058	7,613,304	119,021	87,167	186,186		16,953,610
9	Dominion Bureau of Statistics							98,572	1,900			100,472
10	Energy, Mines and Resources		1,130,783			455,544	765,487	53,955	47,432	18,649		2,471,850
11	External Affairs		465,082			1,226,629	23,421	16,577	169,959	110,858		2,012,526
12	Finance		342,292,868	5,430,009			51,980	1,616,438	881,269	4,922,502	242,572	355,437,638
13	Fisheries		484,557			290,548	154,457	7,318	26,733	55,986		1,019,599
14	Forestry and Rural Development					151,641	28,313	4,554	64,263	18		248,789
16	Indian Affairs and Northern Development	903	790,259			7,447,525	1,428,360	973,423	864,395	833,242		12,338,107
17	Industry		284,669				4,464		3,795	56,155		349,083
18	Insurance	169,086						970,924		178		1,140,188
19	Justice							22,857	2,209	50,018		75,084
20	Labour		3,839				3,209	1,577	5,099	131,285		145,009
21	Legislation					349,641		6,065	20,346	96,444		472,496
22	Manpower and Immigration		1,203			8,422	36,712	36,638	1,492,546	249,808		1,825,329
23	National Defence		1,236,463			1,341,702	1,417,698	2,094,846	5,296,753	1,104,658		12,492,120
24	National Film Board								27,559			27,559
25	National Gallery of Canada								2,931	41		2,972
26	National Health and Welfare		83			283,578	238,499	6,110,538	461,809	63,023		7,157,530
27	National Research Council, including the Medical Research Council		263						140,855	524		141,642
28	National Revenue	7,439,484,812	401			199,089	170,935	355,098	10,836	2,075,052		7,442,296,223
29	Post Office		10,452		253,342,482				27,286	49,017		253,429,237
30	Privy Council								6,379	5,152		11,531
31	Public Archives and National Library		12,416					18,961	3,784	292		35,453
32	Public Printing and Stationery					40,886	2,113,877	24,591	8	36,969		2,216,331
33	Public Service Commission						1	8,666	5,176			13,843
35	Public Works					3,863,524	42,544	1,285,398	808,666	1,022,973		7,023,105
36	Registrar General					4,224,320	181	471,514	1,822	699,431		5,397,268
37	Secretary of State					487,169	3,319	78	1,249	25,521		517,336
38	Solicitor General		272,017			1,043,483	976,238	16,463,453	173,149	541,810		19,470,150
39	Trade and Commerce		7,759,467			31,052	6,907	2,331,826	34,198	472,191		10,635,641
40	Transport		13,976,184			16,744,636	1,026,395	21,514,058	555,937	240,014		54,057,224
41	Treasury Board									150,766		150,766
42	Unemployment Insurance Commission								4,434	194,758		199,192
43	Veterans Affairs		10,590,739			36,744	7,164		3,681,713	169,481		14,485,841
		7,439,654,801	519,140,346	5,430,009	253,342,482	39,744,075	21,501,757	65,268,340	17,196,633	14,660,829	242,572	8,376,181,844

H. R. BALLS,
Comptroller of the Treasury

Auditor General's Certificate

The accounts relating to the revenues as set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1967.

A. M. HENDERSON,
Auditor General.

(This Summary is to be found on pages 8.66 and 8.67 of the Public Accounts, Volume I, and the sections referred to therein are those in the Public Accounts, Volume II)

CANADA

REPORT OF THE AUDITOR GENERAL

TO THE HOUSE OF COMMONS

for the

FISCAL YEAR ENDED MARCH 31

1968

CANADA

REPORT OF THE AUDITOR GENERAL

TO THE HOUSE OF COMMONS

for the

FISCAL YEAR ENDED MARCH 31

1968

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1969

TABLE OF CONTENTS

Appendices

Exhibits

(as published in the Public Accounts)

THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act, *R.S., c. 116*.

2. In accordance with the requirement of section 70 of the Act, I now report to the Iouse of Commons on the results of my examinations for the year ended March 31, 1968. ubsection (1) of the section reads:

> The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that
>
> (*a*) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
>
> (*b*) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
>
> (*c*) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
>
> (*d*) an expenditure was not authorized or was not properly vouched or certified,
>
> (*e*) there has been a deficiency or loss through the fraud, default or mistake of any person, or
>
> (*f*) a special warrant authorized the payment of any money,
>
> and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

3. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 968 and the Statement of Assets and Liabilities as at that date, prepared by the Department of Finance for inclusion in the Public Accounts, have been examined and certified me as required by section 69 of the Financial Administration Act, subject to my coments in this Report. Copies of these financial statements are appended as Exhibits 1 and The Summary of Appropriations, Expenditures and Unexpended Balances by Departents and the Summary of Revenue by Main Classifications and Departments, both as cluded in the 1968 Public Accounts, have also been examined and certified and copies e appended as Exhibits 3 and 4.

anding Committee on Public Accounts

4. My 1966 Report was tabled in the House on February 20, 1967 and was referred the Committee on April 5, 1967. The Committee held three meetings before the First ssion of the Twenty-seventh Parliament prorogued on May 8, 1967. The Second ssion opened on the same date and on May 19, 1967 my 1966 Report was again referred the Committee. However, the Committee did not hold any further meetings.

My 1967 Report was tabled in the House on February 19, 1968 and was referred to e Committee on March 1, 1968. The Committee held four meetings in the period arch 7 to March 19, 1968 when it discussed my follow-up report showing the status of

previous Committee recommendations and commenced an examination of my 1966 Report. No further meetings were held, however, or reports made to the House before Parliament was dissolved on April 23, 1968.

During the First Session of the Twenty-eighth Parliament, my 1966 and 1967 Reports were again referred to the Committee on October 29, 1968. The Committee commenced its meetings on November 7, 1968 and is still in session. In view of the heavy backlog of material awaiting examination in these Reports, the Committee decided that it would commence its deliberations by examining my follow-up report on the status of its previous recommendations, leaving its examination of my Reports until this, my 1968 Report, is tabled in the House and referred to the Committee.

Recommendations and Observations by the Standing Committee on Public Accounts not yet implemented or dealt with

5. My Report to the House last year included a listing of 55 recommendations and observations by the Committee which were awaiting implementation by the Executive or further consideration by the Committee.

Since that Report was submitted to the House on February 19, 1968, the Public Accounts Committee has withdrawn its request for information concerning federal losses from bankruptcies which was included in its Twelfth Report 1966-67 and the Executive has implemented the following four recommendations:

Fourth Report 1966-67
    Post Office Savings Bank

Eighth Report 1966-67
    Internal audit group—Department of Indian Affairs and Northern Development

Tenth Report 1966-67
    Department of External Affairs missions abroad

Fourteenth Report 1966-67
    Application of Canadian Hospital Accounting Manual to federal hospitals

Legislation presently before Parliament will, if passed, partially implement the Committee's recommendation with respect to amendments to the Customs Act and the Excise Tax Act which was contained in its Eighth Report 1964-65 (see Appendix 1, item 25), and will implement its recommendation (see Appendix 1, item 39) that the costs of recovering a sunken vessel, the oil cargo of which was a threat to waterfowl, marine life and coastal property, should be the responsibility of the owner, which was contained in its Eighth Report 1966-67.

The Committee has made no additional recommendations to the House since its Fourteenth Report 1966-67 which was presented to the House on March 2, 1967.

The 50 recommendations and observations remaining which have not been implemented or otherwise dealt with are listed in Appendix 1 to this Report.

Scope of the Audit

6. Examinations of the departmental accounts for the year ended March 31, 1968 were made in conformity with section 67 of the Financial Administration Act which reads:

> The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion
>
> (*a*) the accounts have been faithfully and properly kept,
>
> (*b*) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
>
> (*c*) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
>
> (*d*) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

Our examinations continued to include a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

The attention of responsible administrative and accounting officers was directed to transactions which, in the Audit Office view, were not in harmony with annual parliamentary appropriations or continuing statutory financial directions, or which lacked conformity with Executive orders or regulations.

Our examinations extended to all departments, Crown corporations and other agencies of the Government of Canada, excepting those corporations and other instrumentalities listed in paragraph 263 whose accounts were subject to examination by other auditors.

During the course of their work, members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown corporations and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I should like to express my appreciation for the co-operation thus extended by departmental and treasury officers and by the administrative and accounting officers of Crown corporations and other agencies.

The Audit Office has continued to follow its practice of addressing detailed reports to the executive boards of Crown corporations and other agencies covering the results of its examinations. These reports give a broad summary of the results of operations for the financial year in comparison with the previous year, and make comments and offer suggestions regarding weaknesses in internal control and other matters noted during the audit. Matters dealt with in these reports that are considered to be of interest to the House of Commons are referred to in the relevant sections of this Report.

Form and Content of the Estimates

7. In my Report to the House last year reference was made to the proposals the Treasury Board wished to submit to the Public Accounts Committee regarding changes to be made in future Estimates submissions to the House. The President of the Treasury Board presented his proposals to the Committee on November 21, 1968.

The proposals are designed to show estimated expenditure on a program and activit basis with the details for all departments being shown under three main heading: Administration, Operations and Maintenance; Construction and Acquisition; ar Grants, Contributions and Subsidies. I have advised the Public Accounts Committe that not only should these details provide the House with additional information co cerning proposed spending but that they should also furnish a more meaningful breal down of the cost elements.

In indicating its agreement with this view on December 17, 1968, the Committe agreed that the following criteria should be employed in determining the individu votes required under the revised Estimates format:

1. In the revised Estimates, the proposed spending under a program is to be set for under the three basic headings of
   (*a*) Administration, Operations and Maintenance (or operating costs);
   (*b*) Construction and Acquisition (or capital costs); and
   (*c*) Grants, Contributions and Subsidies,
   so this information will be available to the members of the House in the same manner seen in the example submitted to the Committee of the proposed form of estimat given for the Department of Indian Affairs and Northern Development regardless whether there is to be one, two or three votes.
2. Each department, agency or legal entity shall require one or more votes as the ca may be.
3. In all cases where agencies or Crown corporations are incurring a deficit or relat deficits which must be covered by an appropriation, these will be the subject of separate vote.
4. The special circumstances surrounding any particular expenditure, e.g. Contingenci Treasury Board Vote 5, be made the subject of a separate vote.
5. As capital investment today can well mean increased Administrative cost tomorro spending proposals involving more than $5 million in total for Construction a Acquisition within a departmental program shall always be the subject of a separa vote.
6. Grants, Contributions and Subsidies being of a special nature, therefore requiring different type of consideration, will be the subject of a separate vote when the tot within a departmental program exceeds $5 million.

In its Third Report 1963 the Public Accounts Committee made two recommend tions which have not yet been implemented (see Appendix 1, item 6). The Preside of the Treasury Board has informed the Committee that its recommendation for tl inclusion of supporting financial information of certain Crown corporations and oth public instrumentalities is to be implemented in the new form of the Estimates. Tl other recommendation called for brief notes to be given in the Estimates or Detai of Services explaining proposed major increases in the size of departmental st establishments, the cost of which is one of the largest single items of public expenditu today. Such brief explanatory notes would materially assist the House in understandi the reasons for increases in this type of expenditure and should also be included the new Estimates.

International Work and Relationships

8. The Auditor General has served since 1956 as External Auditor of the International Civil Aviation Organization, one of the specialized agencies of the United Nations. In this capacity he is a member of the United Nations Panel of External Auditors and has been Chairman since October 1965.

An additional international assignment within the United Nations family was undertaken in 1967 when the Assistant Auditor General was appointed a member of the 1967 External Audit Committee of the International Monetary Fund. He was reappointed to the 1968 External Audit Committee and served as its Chairman.

On November 16, 1967 the General Assembly of the United Nations appointed the Auditor General of Canada a member of the United Nations Board of Auditors for a three-year term beginning July 1, 1968. In this capacity he functions as one of the three External Auditors of the United Nations.

These assignments, which are undertaken at the request of the Government, are providing valuable experience for the Audit Office staff. This is particularly true in the case of the United Nations where management auditing is being carried out. The staff engaged on this work has been augmented by the employment of private practitioners experienced in this particular field. Travelling expenses and in most cases salary costs are recovered from the client organizations.

In addition to these international auditing assignments, it has been the policy of the Audit Office to welcome to its staff for training purposes officers sent to Canada by the Auditors General of other countries. A number of these have served on the staff of the Office during the past several years and four more, including the Auditor General of Sierra Leone and the Assistant Auditor General of Ceylon, are scheduled to spend from three to six months with us during 1969.

Office of the Auditor General

9. The Public Accounts Committee has had the functions and operations of the Audit Office under review for many years. As a consequence the Committee has made a number of recommendations to the House designed to ensure the independence of the Office as well as to improve parliamentary control of public funds. The recommendations in question are set out in Appendix 1, items 9, 27, 28, 29, 30 and 45.

One of these recommendations dating back to 1960 was reiterated by the Committee in its Third Report to the House on June 28, 1966:

> It continues to be the opinion of the Committee that it is fundamental that the Office of the Auditor General of Canada be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants. The Committee has been particularly pleased to note in this connection that the Office was recently accorded the right by the Institutes of Chartered Accountants of Quebec (1964) and Ontario (1966) to article students-in-accounts.
>
> The Committee believes that, as an officer of Parliament, the Auditor General should have the right to recruit the professional and senior staff he needs, in the same independent manner as do other officers of Parliament and that the Auditor General's establishment be set in the same manner as government departments.

As I advised the House last year, failure of the Executive to heed this particula recommendation continues to impose a severe handicap on the Office in its efforts t meet the standards set by the Public Accounts Committee.

One of the proposals made by the Committee for the solution of this problem wa that this Office should be governed by a separate Act of Parliament. It requested m in 1966 to consult with my legal advisers and to co-operate with them in preparing draft of such an Act for submission to the Committee and to the Government. I complie with this request and submitted the draft legislation to the Chairman of the Committe and to the Minister of Finance on February 20, 1967. I understand the Committee wil examine this draft during the current session.

The Control of Public Expenditure

10. Fundamentally it is government policies that determine public expenditur and the level of taxation required. The biggest problem facing governments in this are is how to keep the growth of public expenditure under control and at the same tim discharge their responsibilities to the public.

Parliamentary control of public expenditure reflects, if it does not depend upon the attitude of the man in the street towards expenditure and taxes, and one of th major questions is how this control can be strengthened to better enable Parliament t discharge its responsibilities. It is not for the Auditor General to determine how publi money should be spent but as the servant of Parliament it is his duty to guard Parliament's control of the process.

The considerable changes which have taken place in the nature and diversity o public spending over the past quarter century have added new dimensions to th problem. They have presented many new challenges to both the legislative an executive branches of government. Public spending in all its phases is far greater an more complex than ever before. Much of it relates to advanced technological projects scientific research, and new and different subsidy arrangements including welfare scheme of unprecedented proportions. In these and other areas of public spending new sets o priorities, standards and values are emerging to replace many that have been taker for granted for a long time. This places an especially heavy responsibility on thos charged with disbursing public funds to ensure that value will still be received fo the money spent. It also places an equally heavy responsibility on the Office of th Auditor General. I am naturally concerned that the Office discharge this responsibility fairly and intelligently.

The importance of an effective control of public expenditure cannot be stressed too strongly. This has never been an easy task in a country the size of Canada, particularly with its provincial governmental organizations so closely paralleling the federal structure. The need of effective communication throughout the country at all levels is essential if the controls necessary to contain public expenditure for the benefit of the taxpayer are to be properly administered. The history of Canada's annual budgetary expenditure at the federal level shows what this is costing. From the modest figure of $19 million

in 1871, budgetary expenditures have increased many-fold through two world wars to reach \$5,900 million in 1960-61 and an estimated \$10,670 million in 1968-69.

In my Report last year I referred again to the study of the organization and operating methods of the departments and agencies of the Government completed by the Royal Commission on Government Organization in 1963. The responsibility of the Auditor General with regard to the findings of this Commission and the manner in which that responsibility was discharged have been set out in my Reports to the House in the past four years. Many of the situations dealt with in my Report this year could have been avoided if action had been taken to correct the undesirable practices brought to light and criticized by the Commission in its reports in 1962 and 1963.

The Government has, by implementing a number of the Commission's recommendations and by other means, sought to improve its management and other techniques to meet the demands of its expanding organization. On the administrative side, efforts have ranged from improved management information systems and the development and installation of extensive electronic data processing facilities to an enlargement of the estimating machinery to improve forward planning. Outside consultants have been employed to assist in these installations, particularly in the training of staff capable of assuming the increasing number of new tasks. Likewise it has been necessary to recruit more personnel with which to staff the expanding organization in many of the government departments.

The cost of this in terms of staff and related office needs has, of course, been reflected in increased budgetary expenditure over the years. When the Royal Commission concluded its work in 1963 the cost of administrative overhead approximated \$1,000 million. The comparable figure estimated for 1968-69 is \$1,760 million—an increase of 76% over the past six years. It will be seen from Appendix 2 to this Report that the number of employees authorized for government departments at March 31, 1968 had increased by a total of 10,629 during the past year. Increases are recorded in 34 of the 42 departments. The increase in the number of employees authorized for government departments and for Crown corporations and other instrumentalities over the past five years has amounted to 42,667. In any assessment of these figures, consideration must, of course, be given to new programs introduced and to the reduced purchasing power of the dollar.

My Report this year again directs the attention of the House to a number of expenditures that were uneconomical or wasteful. In my opinion more should be done to examine the underlying causes as to why so much of this kind of waste continues year after year. With improved management controls and a more effective delegation of responsibility aimed at achieving individual accountability such as the Government is proposing, it should be easier henceforth to pinpoint the management weakness that has permitted the waste, who was responsible, what will be done about it and how it can be prevented from happening again. As a consequence, it should be possible for the Auditor General to submit more comprehensive Reports to the House.

As the Committee responsible to the House for the traditional safeguarding of Parliament's control of public spending, the Public Accounts Committee has consistently sought to address itself to these matters in recent years when questioning departmental heads on the cases set out in my Reports to the House. Unfortunately the Committee has seldom been able to proceed beyond the cases under examination, perhaps due to the pressures surrounding its meetings in recent years. The Minutes of Proceedings of this Committee, of other committees of the House dealing with the Estimates, and of the Senate Finance Committee clearly demonstrate the anxiety of the members of both Houses to try to get at the root causes of uneconomical operations and apparent waste or extravagance.

In my opinion it would be of material assistance were Parliament itself to consider commissioning a management study of government organization at least once every decade. I believe this should take the form of an audit of the governmental organization, its management, methods and procedures, carried out by a qualified team for the benefit of Parliament, the Government and the taxpayers.

The terms of reference for such a team should render it independent of the Government and require that it submit its report directly to both Houses. Its composition should include the Auditor General because his familiarity and experience with the subject could facilitate the study by speeding the work and minimizing its cost.

Summary of Expenditure and Revenue

11. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1968, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as Exhibit 1 to this Report. The Statement shows a deficit of $795 million for the year. By comparison, there were deficits of $422 million in the preceding year and $39 million in 1965-66.

Expenditure

12. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1968, as published in the Public Accounts, is reproduced as Exhibit 3 to this Report and shows appropriations of $10,109 million, expenditures of $9,871 million and unexpended balances totalling $238 million.

13. Of the $10,109 million of appropriations available for expenditure in the year, $4,252 million was provided by statutory authorities and $5,805 million was granted by Appropriation Acts (Nos. 3, 4, 5, 6 and 7 of 1967 and No. 1 of 1968) while $52 million remained available from continuing 1966-67 appropriations.

Of the $9,871 million of expenditures during the year, $4,252 million (43%) was incurred under statutory authorities, with $5,619 million (57%) being spent under the authority of appropriations granted for the year and continuing appropriations of the previous year.

Of the $238 million of unexpended balances at the year-end, $190 million lapsed in compliance with section 35 of the Financial Administration Act and $48 million pertaining to the following departments and votes remained available for expenditure in 1968-69 because of the special wording of the appropriations:

Department	Vote	Particulars	Amount
Manpower and Immigration.....	6	Municipal winter works incentive program..............................	$ 21,013,000
	10	Payments to provinces under the Adult Occupational Training Act...........	3,000,000
Trade and Commerce...........	35	Payments to the Canadian Wheat Board	12,351,000
Finance........................	46	Forgiveness of indebtedness on loans made by Municipal Development and Loan Board.........................	3,920,000
	50	Payments to the Governments of Commonwealth Caribbean countries re customs duties.........................	1,073,000

Department	Vote	Particulars	Amount
Indian Affairs and Northern Development	30	Northern mineral development assistance grants	$ 3,707,000
External Affairs	35	International food aid program	2,188,000
		Italian earthquake relief	100,000
(1966–67)	35	Italian flood relief	111,000
Transport—Atlantic Development Board	95	Trunk highway program	23,000
	100	Housing mobility assistance	705,000
			$ 48,191,000

14. The lapsed balances of $190 million represented 3.2% of the $5,857 million provided under Appropriation Acts. This compares with lapsed balances of 2.9% of the amounts available in the preceding year and 3.6% in 1965-66. In the following cases the lapsed balances represented more than 10% of the appropriations under the Appropriation Acts:

	Appropriations	Lapsed Amount	Lapsed %
Treasury Board	$ 66,503,000	$ 15,269,000	23
Board of Broadcast Governors	1,301,000	267,000	21
Labour	9,415,000	1,915,000	20
Central Mortgage and Housing Corporation	25,300,000	3,893,000	15
Energy, Mines and Resources	114,587,000	15,917,000	14
Industry	114,369,000	13,670,000	12
Defence Production	40,353,000	4,868,000	12
Unemployment Insurance Commission	42,480,000	4,821,000	11
Justice	3,983,000	419,000	11
Public Service Commission	14,908,000	1,518,000	10

15. The following summary compares expenditure for the fiscal year 1967-68 with the corresponding figures for the two previous years:

	1967–68	1966–67	1965–66
Agriculture	$ 277,066,000	$ 230,657,000	$ 186,264,000
Atomic Energy	69,302,000	60,228,000	54,450,000
Canadian Broadcasting Corporation	143,283,000	115,243,000	97,459,000
Defence Production	35,499,000	34,183,000	29,057,000
Energy, Mines and Resources	138,114,000	130,188,000	107,358,000
External Affairs	215,749,000	230,474,000	152,546,000
Finance	2,148,835,000	1,836,031,000	1,681,039,000
Fisheries	51,741,000	41,471,000	34,526,000
Forestry and Rural Development	81,063,000	66,491,000	57,135,000
Indian Affairs and Northern Development	231,436,000	197,415,000	156,434,000
Industry	118,198,000	78,519,000	72,254,000
Manpower and Immigration	421,594,000	320,416,000	236,478,000
National Defence	1,753,482,000	1,640,378,000	1,548,447,000
National Health and Welfare	1,488,295,000	1,315,942,000	1,175,122,000
National Research Council of Canada, including the Medical Research Council	121,749,000	94,649,000	74,387,000

	1967–68	1966–67	1965–66
National Revenue	$ 115,058,000	$ 105,868,000	$ 94,972,000
Post Office	301,846,000	268,494,000	240,206,000
Public Works	308,599,000	294,373,000	275,147,000
Secretary of State	189,882,000	133,847,000	54,178,000
Solicitor General	153,460,000	144,276,000	121,334,000
Trade and Commerce	81,383,000	73,510,000	67,957,000
Transport	606,933,000	568,178,000	491,986,000
Treasury Board	158,573,000	153,358,000	104,417,000
Unemployment Insurance Commission	107,150,000	106,107,000	98,038,000
Veterans Affairs	400,815,000	390,821,000	369,337,000
Other departments	152,259,000	148,563,000	136,767,000
	$ 9,871,364,000	$ 8,779,680,000	$ 7,717,295,000

NOTE: Appropriation Act No. 3, 1967, *1966-67, c. 86*, authorized the Department of the Solicitor General to credit the administrative vote for the Royal Canadian Mounted Police with costs recovered. In previous years these recoveries were recorded as non-tax revenue and for purposes of comparison the expenditure figures for 1966-67 and 1965-66 have been adjusted accordingly.

In the following paragraphs attention is drawn to the significant increases or decreases in expenditure charged to individual appropriations or groups of appropriations which mainly accounted for the increased expenditure shown above for 1967-68.

16. *Agriculture.* Expenditure increased by $46 million (20%). This was mainly due to an increase of $55 million (71%) in expenditure under the dairy support program, offset by a decrease of $20 million (46%) in expenditure on other grants, contributions, and subsidies paid by the Production and Marketing Branch. Other increases were: Research Branch, $4.2 million (12%); Health of Animals Branch, $2.5 million (15%); Board of Grain Commissioners, $1.9 million (24%); departmental administration, $1.6 million (32%); Production and Marketing Branch administration, $1.4 million (8.1%); Farm Credit Corporation, $1.2 million (48%); and payments under the Crop Insurance Act, *1959, c.42,* $1.4 million (107%). These were offset by a decrease of $3.5 million (14%) in land rehabilitation, irrigation and water storage projects.

17. *Atomic Energy.* The net increase of $9.1 million (15%) comprised an increase of $9.2 million (20%) in the operating expenditure and a decrease of $675,000 (6.6%) in the capital research program of Atomic Energy of Canada Limited, together with an increase of $557,000 (25%) in the administration expenses and research grants of the Atomic Energy Control Board.

18. *Canadian Broadcasting Corporation.* The increase of $28 million (24%) was due to an increase of $24 million (20%) in the cost of production and distribution of programs, $1.5 million (111%) in repayment of capital loans, $1.6 million (71%) in interest on capital indebtedness, $1.4 million (14%) in selling and general administration expenses, $1.3 million (10%) in operational supervision and services, $1.2 million (61%) in the cost of radio and television broadcasting services at the Canadian Universal and International Exhibition, Montreal, 1967, and $1 million (32%) in the cost of the international broadcasting service; offset by an increase of $4 million (11%) in advertising and other revenue.

19. *Defence Production.* Expenditure increased by $1.3 million (3.8%). Administration, operation and maintenance costs increased by $2.2 million (9.5%). In addition, there were expenditures for which there was no counterpart in 1966-67 amounting to $1.2 million in respect of losses sustained in the operation of the Crown-owned magnesium foundry at Haley, Ont., prior to its sale in December 1967 and in settlement of the obligations of the foundry outstanding at September 30, 1967. These were offset by decreases of $1.3 million (14%) in expenditure of the Canada Emergency Measures Organization and $.8 million for the administration and operation of Canadian Arsenals Limited, there being no corresponding charge to the appropriation for this item in 1967-68.

20. *Energy, Mines and Resources.* Expenditure increased by $7.9 million (6.1%). Major increases were $5.2 million (34%) for research and investigations on water resources, $4.1 million (26%) for marine surveys and research, $1.4 million (16%) for field and air surveys, mapping and aeronautical charting, and $1.6 million for payments to Cape Breton Development Corporation to support the coal mining industry on Cape Breton Island, for which there was no counterpart in the preceding year. Offsetting these increases were reductions of $4.4 million (12%) in respect of payments in connection with movements of coal and $1.8 million (40%) in contributions to the provinces to assist in the development of roads leading to resources.

21. *External Affairs.* Expenditure decreased by $15 million (6.4%). This was mainly due to a decrease of $25 million (16%) in external aid offset by an increase of $10 million (14%) in costs of administration, operation and maintenance, and construction or acquisition of buildings, etc. The reduction in external aid was made up of a $17 million (11%) decrease in economic, technical, educational and other assistance, and a $9.4 million forgiveness in 1966-67 of a loan to India for which there was no counterpart in 1967-68, offset by an increase of $1 million (65%) in salaries and expenses.

22. *Finance.* Expenditure increased by $313 million (17%) due mainly to increases of $222 million (43%) in subsidies and other payments to provinces, $110 million (9.3%) in public debt charges, $4 million (10%) in grants to municipalities and provinces, $3.1 million (94%) in payments under the several guaranteed loans Acts, $2.8 million (9.5%) in respect of the Office of the Comptroller of the Treasury, $2.1 million for the cost of drawing currencies from the International Monetary Fund and $1.1 million in payments to governments of Commonwealth Caribbean countries in respect of customs duties on raw sugar imported into Canada, the latter two expenditures having no counterpart in 1966-67; offset largely by decreases of $24 million (58%) in forgiveness of indebtedness under the Municipal Development and Loan Act, *1963, c.13,* of $1.6 million in grants to non-profit social institutions, and by there being no counterpart in 1967-68 for the 1966-67 expenditure of $8.6 million arising from the flooding of the Red River.

23. *Fisheries.* The increase of $10 million (25%) was due mainly to increased costs of $4.8 million (132%) for grants, $3 million (27%) in respect of the Fisheries Research Board, and $2 million (10%) for operation and maintenance.

24. *Forestry and Rural Development.* Expenditure increased by $15 million (22%) due mainly to a $17 million (83%) increase in expenditure for the Rural Development Branch, of which $9 million (50%) applied to programs under the Agricultural and Rural Development Act, *1960-61, c. 30,* and $6 million to the rural economic development program for which there was no counterpart in 1966-67; offset by a decrease of $2 million (11%) in expenditure in the Forestry Branch which was more than accounted for by a decrease of $7.7 million (88%) in contributions to provinces and an increase of $5 million (35%) for administration, operation and maintenance, and construction or acquisition of buildings.

25. *Indian Affairs and Northern Development.* Expenditure increased by $34 million (17%) of which $18 million (17%) was due to increased activities of the Indian Affairs Branch, where administration, operation and maintenance costs increased by $13 million (16%) and construction costs increased by $5 million (19%). Northern Program expenditure increased by $14.4 million (26%) of which $5.7 million (19%) pertained to increased administration, operation and maintenance costs, $3 million (47%) to increased payments to the Governments of the Yukon Territory and the Northwest Territories in lieu of certain taxes, $2.9 million (16%) to increased expenditure on construction and $2.8 million to northern mineral development assistance grants which had no counterpart in the preceding year. Conservation administration, operation and maintenance expenditure increased by $2.6 million (16%) while construction expenditure decreased by $1.5 million (8%).

26. *Industry.* Expenditure increased by $40 million (50%). This was due to expenditure of $15 million, compared to $1.2 million in the previous year, to provide incentives for the development of employment opportunities in designated areas in Canada; $11 million for development grants under the Area Development Incentives Act, *1965, c. 12,* which had no counterpart in the previous year; increases of $4.2 million (67%) in administration costs, $3.5 million (9.8%) in capital subsidies for the construction of commercial and fishing vessels, and $2.6 million (32%) in payments for certain programs to assist defence contractors with plant modernization; $2.1 million to provide incentives for the expansion of scientific research and development in Canada, which had no counterpart in the previous year; and an increase of $1.8 million (38%) for costs of advancing technological capability of Canadian manufacturing by supporting selected civil (non-defence) development projects.

27. *Manpower and Immigration.* Expenditure increased by $101 million (31%). This was due mainly to increases of $93 million (31%) for the development and utilization of manpower, $5.3 million (390%) for program development, $1.5 million (59%) in general administration, and $1 million (5%) in the expenditure of the Immigration Branch.

28. *National Defence.* Expenditure was $113 million (6.9%) higher than in the preceding year. Significant increases were $93 million (6.5%) in the expenditure for defence services, $16 million (37%) in the Government's contribution to the Canadian Forces Superannuation Account, and $6.3 million (14%) in defence research costs. These were offset by a decrease of $1.8 million (18%) in the Government's contribution under the Canada Pension Plan in respect of the Canadian Forces.

29. *National Health and Welfare.* Expenditure increased by $172 million (13%) due mainly to a net increase of $78 million (51%) in assistance to provinces under the Canada Assistance Plan, *1966-67, c. 45,* and the Unemployment Assistance Act, *1956 c. 26;* $71 million (18%) in payments pursuant to the Hospital Insurance and Diagnostic Services Act, *1957, c. 28;* $28 million (594%) under the Health Resources Fund Act *1966-67, c. 42;* $5.5 million (.9%) in family and youth allowances and family assistance payments; and increased costs of administration of $4.5 million (13%) for medical services, $1.5 million (21%) for welfare services and $1.4 million (21%) for food and drug services. Reductions offsetting these increases were: $10.8 million (55%) in old age assistance payments, $8 million (53%) in disabled persons' allowances, $1 million (31%) in blind persons' allowances, and $1 million (22%) in payments under the Fitness and Amateur Sport Act, *1960-61, c. 59.*

30. *National Research Council of Canada, including the Medical Research Council* The $27 million (29%) increase in expenditure was due largely to an increase of $20 million (42%) in scholarships and grants in aid of research, an increase of $4.5 million (12%) in administration, operation and maintenance and an increase of $2.2 million (31%) in construction or acquisition of buildings, works, land and equipment.

31. *National Revenue.* Of the $9.2 million (8.7%) increase in expenditure, $6.4 million (12.2%) was in the Taxation Division and $2.8 million (5.2%) in the Customs and Excise Division. The increases were due to higher administration costs.

32. *Post Office.* Expenditure increased by $33 million (12%) due largely to increased salaries of $22 million (12%) and increased costs of transporting mail by land and air of $8 million (10%).

33. *Public Works.* There was a net increase of $14 million (4.8%) in expenditure The largest item was an increase of $25 million (23%) in accommodation services of which $9.2 million (12%) applied to maintenance and operation of public buildings and grounds and $15 million (48%) to construction, acquisition and major repairs and improvements of buildings. Expenditure in connection with harbours and rivers construction increased by $6.2 million (21%) and road and bridge construction costs increased by $2.4 million (31%). General administration expenses increased by $4.6 million (25%). Offsetting these increases were reductions of $14.8 million (18%) in connection with Trans-Canada Highway construction, and $9.7 million (30%) for the National Capital Commission.

34. *Secretary of State.* Expenditure increased by $56 million (42%) due mainly to increased grants of $21 million (24%) to provinces for post-secondary education, a $17 million grant to the Canada Council for the purposes of the arts, humanities and social sciences, for which there was no comparable expenditure in 1966-67, increases of $13 million (205%) for construction of the National Arts Centre, $1 million (45%) in expenditure of the National Museum, and $1 million (3.2%) for the Centennial Commission.

35. *Solicitor General.* Expenditure increased by $9.2 million (6.4%) due mainly to an increase of $5.3 million (8.9%) in the costs of correctional services comprising $2.9 million (14%) for the costs of construction and improvements of penitentiaries and $2.4 million (6.2%) for operating costs. A further $3.6 million (4.3%) of the increase related to the Royal Canadian Mounted Police and was more than accounted for by increases of $11 million (13%) in operating costs, $4 million (68%) in construction costs of buildings, and $2 million (62%) in the amortization of the actuarial deficiency in the Royal Canadian Mounted Police Superannuation Account. These increases were offset by an increase of $13 million (73%) in costs recovered under policing agreements, etc., which were credited against operating costs.

36. *Trade and Commerce.* Expenditure increased by $7.9 million (11%). This was due mainly to payments of $2.6 million to the Canadian Wheat Board with respect to wheat sales which had no counterpart in 1966-67, and increases of $1.6 million (5%) in carrying costs of temporary wheat reserves of the Canadian Wheat Board, $1.4 million (20%) for departmental administration costs, $1.2 million (13%) for administration, operation and maintenance of the Trade Commissioner Service, and $1.2 million (27%) for the Exhibitions Branch. Offsetting these increases was a reduction of $1.4 million (17%) in Canadian Government Participation in the 1967 World Exhibition.

37. *Transport.* The expenditure of $607 million represented an increase of $39 million (6.8%) over the preceding year. This was largely accounted for by increases of: $22 million (25%) in payments to the railways, of which $11 million (46%) was for reimbursement of the Canadian National Railways deficit, $6.4 million (compared with $200,000 in the previous year) in payments to the Railway Employees Pension Fund, $3.5 million (27%) for the Newfoundland ferry and terminals deficit, $3 million (230%) for railway construction subsidies, offset by a decrease of $2.8 million (10%) for the construction of coastal ferries, docks and terminals; $10 million (6.1%) in air services, of which $15 million (13%) was in respect of administration, operation and maintenance of the various facilities, offset by a decrease of $6.1 million (12%) in respect of construction or acquisition of buildings, works, land and equipment; $6.8 million (4.5%) in respect of the Canadian Transport Commission, accounted for largely by an increase of $5.3 million (4.3%) in payments under the National Transportation Act, *1966-67, c.69;* $2.4 million (6.1%) in expenditure of the Atlantic Development Board, which included

an increase of $11 million under the trunk highway program, and a $2 million paymen to the Province of Nova Scotia in respect of the Dominion Steel and Coal Corporatio Limited, offset by an $11 million (37%) decrease in disbursements from the Atlanti Development Fund; and $1.5 million (1.5%) in marine services, accounted for by a increase of $4.5 million (8.9%) in administration, operation and maintenance, offset b a reduction of $3 million (6.1%) in costs of construction or acquisition of building works, land, vessels and equipment. Offsetting these increases were reductions of $1.8 million (18%) in reimbursement of the Welland Canal deficit; and $2.3 millio (32%) in expenditure of the National Harbours Board, of which $1.1 million was du to outlays in 1966-67 relating to the Canadian Universal and International Exhibitio Montreal, 1967, having no counterpart in 1967-68, and $1 million (66%) to a reductio in the deficit of the Jacques Cartier Bridge, Montreal.

38. *Treasury Board.* There was an increase of $5.2 million (3.4%) due largely to a increase of $4.3 million (7.6%) in the amortization of deferred charges pertaining t special contributions to the Public Service Superannuation Account and $1.9 millio (8.2%) in departmental administration costs. Offsetting these increases was a reductio of $2 million (14%) in the Government's share of surgical-medical service insuranc premiums.

39. *Unemployment Insurance Commission.* The expenditure of $107 million wa $1 million (1%) higher than in the preceding year due to an increase in the Government statutory contribution to the Unemployment Insurance Fund.

40. *Veterans Affairs.* The expenditure of $401 million was $10 million (2.6%) high than in the preceding year. The significant increases were $9.7 million (4.9%) in pensio for disability and death and $2.7 million (92%) in hospital construction, improveme and equipment. These were offset by a reduction of $4.7 million (4.2%) in costs of wa veterans allowances and assistance.

41. *Other departments.* The expenditure of $152 million represented an increa of $3.7 million (2.5%) over the preceding year. This was mainly accounted for b increases of $4.6 million (58%) in expenditure by the Privy Council, $3.2 million (26% by the Department of Justice, $3 million (15%) by the Central Mortgage and Housin Corporation, $2.5 million (23%) by the Public Service Commission, $2 million (37% by the Department of Consumer and Corporate Affairs, $1.3 million (16%) by th National Film Board, and $1 million each by the National Gallery, the Public Servic Staff Relations Board, and the Public Archives and National Library. These increase were offset by decreases of $14 million (56%) in the expenditure by the Department Labour and $4.2 million (16%) by the Dominion Bureau of Statistics due to the absen of expense in 1967-68 for the decennial census or the quinquennial census.

42. *Royal Commissions under Part I of the Inquiries Act.* Expenditure during 1967-68 and the cumulative expenditure of the existing Royal Commissions from the respective dates of establishment to March 31, 1968 were:

	Date of establishment	Number of employees at March 31, 1968	Expenditure during year	Cumulative expenditure
Royal Commission on:				
Health Services	June 20, 1961		$ 16,000	$ 1,483,000
Taxation	Sept. 25, 1962		117,000	3,537,000
Pilotage	Nov. 1, 1962	10	140,000	948,000
Bilingualism and Biculturalism	July 19, 1963	58	1,050,000	6,967,000
Farm Machinery	May 26, 1966	32	473,000	553,000
Security Procedures	Nov. 16, 1966	14	269,000	299,000
The Status of Women	Feb. 16, 1967	9	519,000	528,000
The administration of justice in the Hay River area of the Northwest Territories	July 4, 1967		16,000	16,000
		123	$ 2,600,000	$ 14,331,000

Revenue

43. The Summary of Revenue by Main Classifications and Departments for the fiscal year ended March 31, 1968, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General, is reproduced as Exhibit 4 to this Report. The Summary shows tax revenues accounting for $8,016 million of the total revenue of $9,077 million.

44. The following table summarizes the revenue, by principal sources, for the past three years:

	1967–68	1966–67	1965–66
Tax revenues—			
Personal income tax	$ 2,849,574,000	$ 2,473,820,000	$ 2,142,456,000
Corporation income tax	1,670,589,000	1,593,225,000	1,606,620,000
Income tax on dividends, interest, etc., going abroad	220,472,000	203,621,000	170,019,000
Sales tax	1,601,093,000	1,513,566,000	1,395,129,000
Excise taxes (other than sales tax)	337,048,000	315,581,000	296,178,000
Customs duties	746,437,000	777,586,000	685,519,000
Excise duties	488,554,000	460,980,000	445,886,000
Estate tax	102,192,000	101,106,000	108,352,000
Other tax revenues	303,000	170,000	161,000
	8,016,262,000	*7,439,655,000*	*6,850,320,000*
Non-tax revenues—			
Return on investments	612,275,000	519,140,000	438,254,000
Net postal revenue	281,646,000	253,343,000	237,482,000
Other non-tax revenues	166,406,000	146,041,000	152,264,000
	1,060,327,000	*918,524,000*	*828,000,000*
	$ 9,076,589,000	$ 8,358,179,000	$ 7,678,320,000

NOTE: In 1967–68, for the first time, costs recovered by the Royal Canadian Mounted Police were credited to the administrative vote of the Force under authority of Appropriation Act No. 3, 1967, *1966-67, c. 86*, instead of being recorded as non-tax revenue. For purposes of comparison, the non-tax revenue figures for the two previous years have been adjusted accordingly.

45. The increase of $376 million in personal income tax was due principally to higher levels of personal income and the surtax of 3% imposed during the year. The increase of $77 million in corporation income tax is attributable mainly to the termination of accelerated depreciation programs at the end of 1966 and in early 1967 and to the reduction of the capital cost allowance rates applicable to certain classes of property acquired between March 29, 1966 and April 1, 1967. Sales tax revenue increased by $88 million due mainly to the increase in the rate from 8% to 9% effective January 1, 1967. The $21 million increase in excise taxes (other than sales tax) was due in part to increases effective December 1, 1967 in excise taxes on cigarettes, manufactured tobacco, cigars and wines. The increase of $28 million in excise duties was due to higher consumption of beer and spirits and increased rates of duty effective December 1, 1967.

46. The amounts shown for income taxes and sales tax do not include collections of taxes levied under the Old Age Security Act, *R.S., c. 200*. These collections, which amounted to $1,495 million in the year, as compared with $1,286 million in 1966-67, were credited to the Old Age Security Fund. The increase of $209 million was due to higher levels of personal income in 1967-68 and to the fact that the maximum amount payable by an individual on account of the 4% tax on personal income under the Old Age Security Act was raised from $120 to $240 per year effective January 1, 1967. A summary of transactions relating to this Fund is given in paragraph 229 of this Report.

47. *Excise taxes.* The following is a summary of excise taxes, other than sales tax, collected during the year ended March 31, 1968, with comparable amounts for the two previous years:

	1967–68	1966–67	1965–66
Cigarettes	$ 241,441,000	$ 231,550,000	$ 217,876,000
Manufactured tobacco	21,169,000	16,324,000	16,393,000
Toilet articles and preparations	17,934,000	15,476,000	14,114,000
Phonographs, radios and tubes	17,315,000	14,579,000	14,729,000
Television sets and tubes	15,266,000	16,608,000	12,232,000
Jewellery, clocks, watches, chinaware, etc.	10,155,000	8,874,000	7,935,000
Wines	5,327,000	4,751,000	4,402,000
Cigars	4,076,000	3,561,000	3,811,000
Sundry	4,927,000	4,343,000	5,034,000
Refunds and drawbacks	−562,000	−485,000	−348,000
	$ 337,048,000	$ 315,581,000	$ 296,178,000

48. *Excise duties.* A listing of excise duties collected during the year ended March 31, 1968, in comparison with corresponding amounts for the two previous years is given in the following table:

	1967–68	1966–67	1965–66
Cigarettes	$ 187,242,000	$ 188,818,000	$ 179,054,000
Spirits	180,401,000	158,157,000	156,942,000
Beer	120,239,000	113,254,000	107,917,000
Other	7,370,000	7,647,000	8,047,000
Refunds and drawbacks	−6,698,000	−6,896,000	−6,074,000
	$ 488,554,000	$ 460,980,000	$ 445,886,000

49. *Return on investments.* The following is a listing of the revenue from the various loans and investments in 1967-68, along with the comparable figures for the two previous years:

	1967–68	1966–67	1965–66
Bank of Canada	$ 177,024,000	$ 150,585,000	$ 143,106,000
Central Mortgage and Housing Corporation	163,328,000	129,673,000	107,843,000
Exchange Fund Account	55,189,000	60,638,000	62,833,000
Farm Credit Corporation	34,611,000	29,141,000	21,012,000
Loans to national governments	25,097,000	25,693,000	6,451,000
Deposits with chartered banks	23,351,000	24,209,000	21,703,000
Canadian National Railways	22,478,000	16,446,000	11,991,000
Securities Investment Account	17,022,000	3,649,000	1,330,000
Veterans' Land Act loans	12,989,000	10,589,000	9,075,000
Municipal Development and Loan Act	12,716,000	5,933,000	670,000
The St. Lawrence Seaway Authority	10,849,000	13,754,000	9,400,000
Canadian Corporation for the 1967 World Exhibition	9,929,000	3,552,000	194,000
Export Credits Insurance Corporation	9,473,000	7,755,000	6,782,000
Special United States of America securities—Columbia River Treaty	6,598,000	7,930,000	9,212,000
Northern Canada Power Commission	3,834,000	3,142,000	2,238,000
National Capital Commission	3,793,000	3,781,000	3,254,000
Canadian Broadcasting Corporation	3,760,000	2,203,000	1,009,000
Polymer Corporation Limited	2,600,000	4,500,000	4,500,000
Canadian Overseas Telecommunication Corporation	2,495,000	2,555,000	2,686,000
International Bank for Reconstruction and Development	2,019,000	424,000	—
National Harbours Board	1,410,000	1,677,000	4,097,000
Other loans and investments	11,710,000	11,311,000	8,868,000
	$ 612,275,000	$ 519,140,000	$ 438,254,000

The amounts shown for revenue from investment in the Bank of Canada represent annual profits earned by the Bank and paid to the Receiver General as required by section 28 of the Bank of Canada Act, *R.S., c.13.*

Revenue from Central Mortgage and Housing Corporation for 1967-68 comprised $156,707,000 ($127,008,000 in 1966-67) interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, *R.S., c.46*, and $6,621,000 ($2,665,000 in 1966-67) profit for the year ended December 31, 1967 which was transferred to the Receiver General as required by section 30 of the Act.

The amount shown for revenue from the Exchange Fund Account includes earnings of $52,300,000 on investments of the Account paid into the Consolidated Revenue Fund in accordance with the requirement of section 24 of the Currency, Mint and Exchange Fund Act, *R.S., c.315.* The remainder, $2,889,000, represents the profit of $2,336,000 for the calendar year 1967 and an adjustment of $553,000 in last year's transfer of profits, for the calendar years 1964 and 1965, from trading operations in foreign exchange, gold and securities and from the net valuation adjustments on unmatched purchases or sales during each year, paid over to the Consolidated Revenue Fund under authority of Department of Finance Vote 23a, Appropriation Act No. 9, 1966, *1966-67, c.55.*

Revenue from loans to national governments, $25,097,000, includes $19,525,000 for current interest paid by the United Kingdom. In 1965-66 the interest was deferred in accordance with the 1957 amendment (*1957, c.37*) to The United Kingdom Financial Agreement Act, 1946, *1946, c.12.*

Interest at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%, is earned on deposits with chartered banks in excess of an aggregate of $100 million. The interest is calculated weekly on the lowest daily balance within the week.

Although the portion of Government of Canada securities in the Securities Investment Account on which interest is earned decreased by $157 million, from $160 million at the beginning of the year to $3 million at March 31, 1968, revenue of $17 million increased by $13 million over the previous year. This increase was due to heavy trading in securities during the year. Approximately $10.2 million of the revenue was earned through interest and $6.8 million represented profits on cancellation of securities with a face value of $500 million.

The increase to $12,716,000 in revenue under the Municipal Development and Loan Act, *1963, c.13,* results mainly from the receipt of interest on debentures held for the full year.

Revenue from The St. Lawrence Seaway Authority includes $10,843,000 received on account of interest deferred in 1964 and $6,000 received on account of current interest.

Revenue of $9,929,000 from the Canadian Corporation for the 1967 World Exhibition represents interest received on notes issued by the Corporation under section 12 of the Canadian Corporation for the 1967 World Exhibition Act, *1962-63, c.12.*

Revenue of $6,598,000 from special United States of America securities represents interest for the year ended November 1, 1967 at $4\frac{1}{4}$% on holdings of $154.9 million.

The increase of $1,557,000 from the Canadian Broadcasting Corporation was due to increased interest-bearing loans to the Corporation during the year to finance capital requirements.

Dividends on capital stock of Polymer Corporation Limited amounted to $2,600,000, a decrease of $1,900,000 from 1966-67.

50. *Net postal revenue.* The following table shows the gross postal revenue, disbursements therefrom, and the resulting net postal revenue for the past three years:

	1967–68	1966–67	1965–66
Gross postal revenue	$ 327,104,000	$ 295,443,000	$ 275,994,000
Disbursements—			
Remuneration of postmasters and staffs at certain classes of smaller post offices	39,484,000	36,655,000	33,593,000
Other	5,974,000	5,445,000	4,919,000
	45,458,000	*42,100,000*	*38,512,000*
Net postal revenue	$ 281,646,000	$ 253,343,000	$ 237,482,000

The amounts shown for "Other" disbursements mainly comprise charges on parcels mailed in Canada for delivery in foreign countries and transit charges on Canadian mail forwarded through foreign countries, together with compensation paid to messengers for special delivery of letters and parcels.

51. *Other non-tax revenues.* An analysis of the amounts shown for "Other non-tax revenues" for the past three years follows:

	1967–68	1966–67	1965–66
Services and service fees	$ 58,914,000	$ 48,813,000	$ 46,781,000
Proceeds from sales	18,531,000	20,954,000	22,467,000
Privileges, licences and permits	41,610,000	38,754,000	38,301,000
Refunds of previous years' expenditure	21,656,000	17,197,000	18,919,000
Bullion and coinage	10,672,000	5,430,000	11,217,000
Miscellaneous	15,023,000	14,893,000	14,579,000
	$ 166,406,000	$ 146,041,000	$ 152,264,000

Note: In 1967–68, for the first time, costs recovered by the Royal Canadian Mounted Police were credited to the administrative vote of the Force under authority of Appropriation Act No. 3, 1967, *1966-67, c. 86*, instead of being recorded as non-tax revenue. For purposes of comparison, the non-tax revenue figures for the two previous years have been adjusted accordingly.

Comments on Expenditure and Revenue Transactions

52. Reference has already been made to the statutory responsibility of the Audito General, under section 70 of the Financial Administration Act, to call attention to specifi classes of transactions observed during his examinations and to any other case that h considers should be brought to the notice of the House of Commons.

Pursuant to this direction, the following matters relating to the expenditure an revenue transactions examined during the year are brought to the attention of the Hous in this Report. Several matters of a similar nature relative to Crown corporations ar also included. A number involve non-productive payments, the details of which are give at the request of the Public Accounts Committee. Some of these relate to prior year transactions although payments were made in 1967-68.

53. *Revised vote pattern.* In its Third Report 1963 the Public Accounts Committe recommended:

> Adoption of the revised vote pattern proposed by the Treasury Board for introductio into the Main Estimates 1964-65 subject to certain improvements suggested by the Audit General to the Committee.

The vote pattern actually adopted for the 1964-65 Main Estimates differed in certai instances from the pattern which had been considered by the Public Accounts Committe Details of the more important variations have been given in our 1965 and subsequer Reports (paragraph 54 in 1967) together with examples of transfers of funds betwee services which would not have been possible under the previous vote pattern. Thes variations were continued in 1967-68.

Additional variations in the 1967-68 vote pattern were of minor significance ir volving for the most part amalgamation of votes for administration resulting fro reorganization of the functions of certain departments.

Paragraphs on this subject in our 1965 and subsequent Reports have not yet bee considered by the Public Accounts Committee.

54. *Contingencies vote.* In paragraph 55 of our 1967 Report we mentioned tha up to and including the 1963-64 fiscal year, the Department of Finance annually ha a vote for the supplementing of salaries, wages and other paylist charges of governme departments and a vote for miscellaneous minor or unforeseen expenses, and that the had been amalgamated in one vote since 1964-65. We also referred to the text of t annual vote and to the text changes in the Main Estimates for 1966-67 and for 1967-6

In 1967-68 the vote appears under the departmental heading of the Treasury Boa as Vote 5 reading as follows:

> Contingencies—Subject to the approval of the Treasury Board, to supplement oth votes for paylist and other requirements and to provide for miscellaneous minor and unfor seen expenses not otherwise provided for including awards under the Public Servan Inventions Act, and authority to re-use any sums allotted for non-paylist requirements a repaid to this appropriation from other appropriations.

One of the principal reasons why other votes need supplementing is unexpected salary requirements resulting from general salary increases or the filling of vacancies in the establishment faster than anticipated. By having such a vote available the Treasury Board is able to instruct departments to provide in their estimates only for known requirements and not to include any cushion against unexpected obligations.

Under normal conditions the amount required is not large, but in the past four years the annual provision has been substantial due mainly to the large-scale salary increases throughout the government service. The following summary shows the annual provision, the extent to which it has been used by transfers to other votes and the unused balance at the year-end:

	Provided	Transferred to other votes: Paylists	Transferred to other votes: Miscellaneous	Unused balance
1964–65	$ 46,000,000	$ 35,603,000	$ 2,198,000	$ 8,199,000
1965–66	71,000,000	64,865,000	1,796,000	4,339,000
1966–67	110,000,000	106,227,000	572,000	3,201,000
1967–68	45,000,000	22,830,000	11,000,000	11,170,000

Members of the Public Accounts Committee have indicated concern that such large sums are placed in the hands of the Executive for the supplementing of the appropriations of the various departments and after considering the matter at its meeting on November 23, 1966 the Committee included the following in its Thirteenth Report 1966-67, presented to the House on March 1, 1967 (see Appendix 1, item 50):

> that there be no change in the Treasury Board's procedure whereby it is the agency which determines the Government's overall cash requirements in stated areas, e.g., salary increases. However, once this determination is completed and the individual departmental needs established, the Committee believes that the additional amount required by each department should be made the subject of a supplementary estimate prepared by the department concerned for submission to Parliament for its consideration and appropriation in the usual manner.

The miscellaneous transfers are the net amounts transferred to other votes after taking into account any recoveries that may have been made. These recoveries are made from supplementary appropriations which include the items for which the original transfers were requested, so that they come before Parliament for its consideration in the usual manner.

The miscellaneous transfer of $11 million in 1967-68 was made to supplement Manpower and Immigration Vote 10 in order to provide additional funds for the payment of claims from provinces for the phase-out of assistance under the former Technical and Vocational Training Agreements for which supplementary estimates were inadequate. This transfer was authorized by the Treasury Board on April 25, 1968, after Parliament was dissolved on April 23 following adjournment on March 27.

55. *Grants paid prior to parliamentary approval.* It is generally accepted that th prior sanction of Parliament is a requisite for the making of a grant-in-aid payment Notwithstanding this, the Treasury Board on eight occasions during the year authorized without the prior approval of Parliament, the payment of a grant from Treasury Boar Vote 5, Contingencies. These grants were later included in Supplementary Estimates (C which were covered by Appropriation Act No. 1, 1968, *1967-68, c. 34,* assented to o March 27, 1968.

The following is a list of the grants which received *ex post facto* approval o Parliament:

Date of payment	Beneficiary and appropriation charged	Amount
July 17, 1967.........	Grant for the Toronto International Sculpture Symposium (Secretary of State Vote 1c)............................	$ 40,000
August 29, 1967.......	Grant for the Cultural Centre of Old Montreal (Secretary of State Vote 1c) (see paragraph 188 of this Report)..........	100,000
September 20, 1967....	Special payment to Paul Piroson, Superintendent of Vimy Park (retired), in recognition of exceptional services (Veterans Affairs Vote 1).......................................	5,000
October 10, 1967......	Contribution to assist in defraying the expenses of the Crows' Nest Industries team representing Canada at the World Series of Safety mine rescue competition at Louisville, Kentucky (Energy, Mines and Resources Vote 1c)............	2,000
November 10, 1967....	Grant to the Association Internationale des Étudiants en Sciences Économiques et Commerciales (Trade and Commerce Vote 1)...	5,000
December 15, 1967....	Grant to the Association Canadienne des Éducateurs de Langue Française (ACELF) (Secretary of State Vote 1c)...........	20,000
December 21, 1967....	Grant to Canadian Welfare Council (National Health and Welfare Vote 40)...	20,200
February 15, 1968.....	Grant for the Toronto International Sculpture Symposium (Secretary of State Vote 1c)............................	30,000

In the course of its consideration of Supplementary Estimates (C), the House o Commons was not informed that these grants had already been paid.

56. *Supplementing parliamentary appropriations.* In our 1966 Report and again i our 1967 Report (paragraph 56), we drew attention to the weakening of parliamentar control over expenditure when appropriations containing provisions for the spending o revenue received during the year may be supplemented, without parliamentary authority when the revenue received is in excess of the revenue estimated. We cited the appropria tion of the Department of Veterans Affairs for Treatment Services—Operation o Hospitals and Administration, and the appropriations of the Department of Nationa Defence. In both these cases the revenue for the year had exceeded the revenue estimate in calculating the amount that Parliament was asked to appropriate and we recom mended that the use of revenue be limited to the amount of estimated revenue a recorded in the Details of Services in the Estimates.

No change was made in 1967-68 and the vote wording for the corresponding item in the Revised Estimates for 1968-69 indicates that no change is contemplated in 1968-69

Another example was noted during 1967-68 when Vote 15 of the Department of the Solicitor General for the first time provided authority for the Royal Canadian Mounted Police to spend revenue received during the year. In this case, the estimate of the revenue that would be received was $27,322,000 whereas the revenue actually received was $31,213,000 of which $30,260,000 was spent, thus supplementing the appropriation to the extent of $2,938,000.

We reiterate our view that to restore parliamentary control over expenditure in :hese cases, three figures—estimated gross expenditure, estimated revenue and net amount ıppropriated—should appear in the appropriation itself and the amount of revenue used :o supplement the net amount appropriated should be limited to the estimated revenue shown in the appropriation.

57. *Unpaid accounts carried forward to new fiscal year.* A statement of amounts ›roperly chargeable to 1967-68 which were not paid in that year appears on pages 45.6 o 45.10 of Volume II of the Public Accounts. The statement reveals that 37 departnents and agencies had such accounts, the same number as in the previous year. The .mounts shown in the statement are divided into six categories, the totals of which ompare with the previous year's totals as follows:

	March 31	
	1968	1967
In treasury offices at April 30, 1968—		
Insufficient funds	$ 15,372,000	$ 12,262,000
Other reasons	3,847,000	4,689,000
	19,219,000	*16,951,000*
In departments and agencies at April 30, 1968—		
Insufficient funds	10,220,000	3,651,000
Other reasons	2,342,000	6,535,000
	12,562,000	*10,186,000*
Received by departments and agencies after April 30, 1968—		
Insufficient funds	4,772,000	1,521,000
Other reasons	9,575,000	1,431,000
	14,347,000	*2,952,000*
	$ 46,128,000	$ 30,089,000

The reasons for non-payment of these accounts may be summarized, with the comırable amounts for the previous year including $1,595,000 which was not reported in ıe Public Accounts, as follows:

	March 31	
	1968	1967
Failure to pay although funds were available	$ 3,847,000	$ 4,689,000
Failure to get accounts in on time	11,917,000	9,048,000
Failure to seek supplementary appropriations	15,372,000	12,262,000
Failure to get accounts in on time and to seek supplementary appropriations	14,992,000	5,685,000
	$ 46,128,000	$ 31,684,000

No explanation is given in the statement for the non-payment in the year of accounts totalling $3,847,000 which were in the treasury offices before the last day for payment and for which funds were available.

It will be noted that the unpaid accounts increased by $14,444,000 over those at the end of the previous year. Therefore the expenditure properly chargeable in 1967-68 was actually $14,444,000 higher than was recorded. However, the 1967-68 appropriations were intended to cover amounts coming in course of payment during the year and technically 24 of them were overspent by $30,364,000.

Another charge applicable to the year but which has been carried forward as part of the current assets item "Departmental working capital advances" is an amount of $1,476,000 which, together with a customer's deposit liability item of $74,000, makes up the $1,402,000 balance of the "Agricultural Commodities Stabilization Account" (see paragraph 247 of this Report). This is the amount by which the provision in Department of Agriculture Vote 17 fell short of meeting the loss of $141,219,000, exclusive of the estimated value of major services provided without charge by government departments, experienced by the Agricultural Stabilization Board during the year (see also paragraph 296).

Section 30(1) of the Financial Administration Act directs that:

> No contract providing for the payment of any money by Her Majesty shall be entered into or have any force or effect unless the Comptroller certifies that there is a sufficient unencumbered balance available out of an appropriation or out of an item included in estimates before the House of Commons to discharge any commitments under such contract that would, under the provisions thereof, come in course of payment during the fiscal year in which the contract was entered into.

and subsection 3 of the same section requires that:

> The Comptroller shall establish and maintain a record of all commitments chargeable to each appropriation.

These sections impose on the Comptroller of the Treasury the responsibility for operating commitment control records for each parliamentary appropriation in such a way that he is in a position at any time to state the balance remaining in an appropriation that is available for further commitment.

However, Parliament has modified this requirement in the case of certain departments whose annual appropriations include authority to enter into commitments that will come in course of payment only in future years. Such commitments would include contracts extending over long periods of time under which deliveries cannot always be precisely anticipated. If deliveries are made faster than expected, there may not be sufficient funds in the vote to enable payment to be made.

Similarly, claims under assistance or other programs to which the Government and Parliament are committed may exceed the amounts estimated and provided for in the year's appropriation. The necessary funds for such programs are often provided for by statute with no dollar limitations. When this is the case, accounts may be paid as received. However, when funds are provided by annual appropriation and the amount required has been underestimated, there is no alternative but to withhold payment until

a further appropriation of Parliament is available. This further appropriation is usually the corresponding appropriation in the new year and thus that appropriation is first charged with amounts it had not been intended to provide. This often results in the appropriation being insufficient to take care of all of the accounts coming in course of payment for which it had originally been provided.

The present procedures whereby no appropriation is ever reported as having been overexpended, through the technique of withholding payments of amounts owing by the Crown until a further appropriation becomes available, are misleading and should be reviewed. Consideration should also be given to the procedures followed in presenting supplementary estimates to Parliament. The final supplementary estimates for 1967-68 were assented to on March 27, 1968, Appropriation Act No. 1, 1968, *1967-68, c. 34*. A study might usefully be made of the reasons why much of the $46 million of unpaid accounts at March 31, 1968 was not provided for in this supplementary appropriation.

58. *Departmental operating accounts.* In our 1967 Report (paragraph 57) we referred to the Management Improvement Policy circular on "Working Capital Advances" issued by the Treasury Board in April 1966 which encourages a broader use of revolving funds, or working capital advances, than that contemplated by existing legislation. For instance, section 11 of the circular states, in part, that "when requesting the establishment of, or an amendment to, a working capital advance, it may be desirable, considering the nature of the advance and in the interests of flexibility of operations, for departments to request authorization in respect to that advance, that (a) surpluses or portions thereof, be carried over to subsequent years;...and (d) capital equipment, used in an operation controlled by an advance, be financed from the resources of the advance so that the cost of the equipment is recovered over its useful life through charges made for services rendered or goods supplied".

We pointed out that the acquisition of capital assets through an operating account completely removes the expenditure on such assets from parliamentary control. Examples of this, the Queen's Printer's Advance Account operated by the Canadian Government Printing Bureau, the National Film Board Operating Account and the working capital account of the Central Data Processing Service Bureau, are referred to in paragraph 245 of this Report. The organizations operating these Accounts are established to service all government departments and agencies which, in a sense, are captive customers, having little choice but to do business with them and having little or no control over the prices charged by them.

As explained further in paragraph 245 of this Report, these organizations are not dependent on appropriations of Parliament for the acquisition of capital equipment and are limited only by the dollar ceiling placed on the operating account by the governing legislation.

The objective of recovering the cost of equipment over its useful life through charges for services rendered or goods supplied is a most desirable one. However, to achieve this by financing the cost of the equipment from operating accounts is, in our opinion, undesirable from the important standpoint of parliamentary control. The objective could be

attained without affecting parliamentary control if adequate memoranda accounts were set up, proper financial statements were produced and the estimates prepared in such a way that departments being serviced continue to be provided with sufficient funds to pay the total costs of the services, with the servicing organizations being required to contribute to the budget of Canada the equivalent of normal depreciation on the capital assets employed.

59. *Subsidization of irrigation projects.* The Prairie Farm Rehabilitation Administration operates or shares in the operation of several irrigation projects in western Canada. These operations are carried on under the Prairie Farm Rehabilitation Act, *R.S., c. 214,* with the costs being provided for by annual parliamentary appropriations. A description of three of these projects follows:

BOW RIVER IRRIGATION PROJECT. This project provides water for some 120,000 irrigable acres in southern Alberta. The project was originally privately-owned but was purchased by Canada in 1950 and has been operated since under the Prairie Farm Rehabilitation Act.

Expenditure on this project to March 31, 1968 totalled $38.5 million of which $2.3 million was for the purchase in 1950 of the assets of the Canada Land and Irrigation Company, Limited, $23.3 million for development and construction of additional works and $12.9 million for the rehabilitation of settlers moved to the project and for operation and maintenance. Revenue from all sources, including sales and rentals of land, amounted to $3.8 million.

An annual water rental charge is levied against the users of irrigation water at the following rates: to farmers and settlers in the Vauxhall and Hays districts containing 90,000 irrigable acres, $1.50 per irrigable acre; to the Province of Alberta, which operates an irrigation district containing 25,000 irrigable acres, 25 cents per acre foot of water delivered; to the Blackfoot Indian Reserve, which operates a district containing 5,000 acres, 50 cents per acre for water delivered to distribution points; and to water users outside the bounds of the project, $2.50 per irrigable acre.

The operating and maintenance costs, and the income from water rental charges, for each of the past five years were:

	Costs of operation and maintenance	Water rental charges
1963–64	$ 884,000	$ 112,000
1964–65	909,000	137,000
1965–66	987,000	116,000
1966–67	1,123,000	148,000
1967–68	1,106,000	155,000
	$ 5,009,000	$ 668,000

The disparity between revenues and costs will continue, particularly in the Vauxhall and Hays districts where Canada committed itself, under the terms of the purchase agreement with the Canada Land and Irrigation Company, Limited, to carry out the existing obligations of the Company to farmers who had settled on the Company's land and to provide water for $1.50 per irrigable acre per year. This obligation was written into water agreements with each settler and extends to his heirs and assigns in perpetuity. Canada has entered into similar water agreements with farmers who have settled on the project subsequent to 1950.

The rate of 25 cents per acre foot of water delivered to the irrigation district administered by the Province of Alberta has remained constant since 1953 although the agreement between Canada and the Province provides that for each period of five years after 1958 the rate shall be the cost of delivery but not exceeding such rate as the parties may agree upon for the period.

The water rental to the Blackfoot Indian Reserve was reduced by the Governor in Council from 75 cents to 50 cents per irrigable acre "for the years 1956 and 1957 on the understanding that there will be a readjustment in the water rental for 1958 and onward". The rate of 50 cents has remained unchanged since 1956.

ST. MARY IRRIGATION PROJECT. This project was started in 1946 as a joint undertaking of Canada and the Province of Alberta. Canada constructed the main dams, reservoirs and connecting canals at a cost of $27.4 million and sells the water to Alberta for distribution to some 300,000 acres. Costs to Canada for operation and maintenance have amounted to $4.2 million and revenues from all sources to $1 million.

Under the terms of a 1950 agreement Canada is to deliver water to Alberta "at cost provided such charge shall not exceed twenty-five cents per acre foot per year; and it is agreed that this clause shall be reviewed every five years".

There has been no change in the rate since water was first delivered in 1955. The following table provides a comparison of costs with revenue in the past five years:

	Costs of operation and maintenance	Revenue from Province of Alberta
1963–64	$ 337,000	$ 113,000
1964–65	344,000	88,000
1965–66	312,000	37,000
1966–67	290,000	45,000
1967–68	277,000	73,000
	$ 1,560,000	$ 356,000

IRRIGATION PROJECTS IN SOUTHWEST SASKATCHEWAN. These projects, covering some 25,000 irrigable acres, are serviced by 25 water reservoirs. Some of the works were constructed during the Depression as relief measures and costs are not readily available. Since 1951, however, $4.7 million has been expended on improvements, operations and maintenance while revenues, including sales and rentals of land, have amounted to $1 million.

Water rental charges to users vary from 25 cents to $3.00 an acre a year depending on the service provided.

The water rate for the major portion of the irrigated land has been increased progressively, from $1.50 in 1963 to $2.75 in 1967 and $3.00 in 1968. The following table shows the costs and revenues from water rental charges for the past five years:

	Costs of operation and maintenance	Water rental charges
1963–64	$ 232,000	$ 25,000
1964–65	243,000	24,000
1965–66	230,000	35,000
1966–67	298,000	45,000
1967–68	355,000	43,000
	$ 1,358,000	$ 172,000

60. *Inconclusive post-audit of subsidies paid.* Payment of a subsidy subject to post-audit has obvious merit, provided that such an audit is practicable, results are followed up and appropriate action is taken.

In February 1966 the Minister of Agriculture for the Province of Prince Edward Island requested that Canada share with the Province the cost of providing compensation to the growers of certain vegetable crops who had suffered losses because of drought in 1965. Canada agreed to reimburse the Province for 50% of payments to growers based on 75% of actual costs or, where a crop had been harvested, the difference between the actual amount received for the crop and the average value of 75% of a normal crop. In April 1967 the Province's claim for reimbursement, bearing the certification of the Provincial Auditor that the amount of $148,000 had been paid to growers by the Province, was paid, subject to post-audit, in the amount of $74,000 and charged to Department of Agriculture Vote 35, 1966-67.

The report of the Provincial Auditor for the year ended March 31, 1967 noted that his certification on the claim merely stated that the amount of $148,000 had been paid by the Province because, due to the length of time that had passed, it was impossible for him to verify actual production figures from examination of the farmers' and packers' records.

On October 31, 1967 the Audit Services Branch of the Comptroller of the Treasury reported that, while they were able to certify the amount of compensation paid to the growers, they were unable to certify that the payments complied with the terms of the agreement for assistance.

The Department of Agriculture has since informed the provinces that growers of vegetable crops should be protected from losses by bringing these crops under the Crop Insurance Act, *1959, c. 42,* and that special assistance programs would not be supported as they had been in the past.

61. *Change in procedure resulting in higher recorded expenditure.* In previous years the Agricultural Stabilization Board carried out the Government's program for stabilizing the price of milk but during the year this function was taken over by the Canadian Dairy Commission (see paragraph 296 of this Report) to which the Board paid $124,114,000 for the benefit of producers of manufacturing milk and cream delivered to processing plants in the period April 1, 1967 to March 31, 1968. This amount formed part of the net operating loss of the Agricultural Commodities Stabilization Account. The amount paid to the Commission exceeded by $24,948,000 the actual payments by the Commission to producers during the year. The excess was to cover the estimated milk price stabilization payments due to producers after April 1, 1968 in respect of deliveries made in February and March 1968 and an anticipated loss of $10,000,000 on the sale of stocks of dairy products held by the Commission at March 31, 1968.

The procedure differed from that followed by the Stabilization Board in previous years, when the Agricultural Commodities Stabilization Account was charged and later reimbursed only for actual disbursements to producers and actual losses on sales during

the year. The Account had already been charged in 1967-68 with the milk price stabilization payments to producers in respect of deliveries made in February and March 1967 and thus budgetary expenditure for the year was charged with payments with respect to deliveries over a 14-month period and with potential losses on inventories and as a consequence was $24,948,000 more than would ordinarily have been the case.

62. *Questionable expenditure by Atlantic Development Board.* An exchange of correspondence in 1962 between the Prime Minister of Canada and the President of The Fathers of Confederation Memorial Citizens Foundation established the Federal Government's contribution towards the cost of the Confederation Centre in Charlottetown, P.E.I., at the lesser of 50% of the actual cost or $2.8 million. The Centre was completed in 1964 and the maximum agreed contribution of $2.8 million was paid by the Centennial Commission.

The final cost of the Centre was about $6.2 million and, although it had not previously been involved in this project, the Atlantic Development Board in October 1966 agreed to recommend a contribution of up to $600,000 to defray the additional capital costs incurred in its construction. With Treasury Board approval, $277,000 was paid to the Foundation in 1967-68 and a further payment of $279,000 was made in May 1968.

Section 9(d) of the Atlantic Development Board Act, *1962-63, c.10,* authorizes the Board to

> enter into agreements with the government of any province comprised in the Atlantic region or the appropriate agency thereof, subject to approval thereof by the Governor in Council, or enter into agreements with any other person, providing for
>
> (i) the undertaking by the Board of any programs or projects that, in the opinion of the Board, will contribute to the growth and development of the economy of the Atlantic region and for which satisfactory financing arrangements are not otherwise available.

The Atlantic Development Board did not participate in the planning or in the original government contribution of $2.8 million towards the cost of this Centre. In agreeing to absorb the excess of actual over estimated costs of $556,000 two years after the Centre had been completed, it is open to question whether the Board was in fact undertaking a project within the meaning of the Act. This, together with the limitation placed upon the Government's grant to the Foundation by the Prime Minister in 1962, makes the propriety of the payment questionable.

63. *Cost of hotel accommodation not used by the Canadian Broadcasting Corporation.* In paragraph 169(1) of last year's Report we stated that early in 1967, because of an anticipated shortage of hotel accommodation in the City of Montreal, the Canadian Broadcasting Corporation entered into contracts with three hotels to ensure accommodation for its personnel travelling to Montreal on business during Expo '67. The final result was that this accommodation remained unoccupied 24%, 48% and 50% of the time at a cost of $148,000, including a termination charge of $18,900 (equal to one

month's rent) paid to one of the hotels. At the same time that these facilities were not being used, accommodation in other hotels costing approximately $40,000 was occupied by Corporation employees. (See also paragraphs 81 and 268 of this Report.)

64. *Salaries and wages paid for work not performed.* In our last three Reports (paragraph 60 in 1967) we have referred to payments aggregating approximately $450,000 per annum by the Canadian Broadcasting Corporation to employees for scheduled hours during daily or weekly tours of duty which were in excess of the actual hours of attendance.

The payments were made in accordance with the provisions of the various union agreements and the Corporation regards payment of compensation calculated in this manner as proper, having regard to the effect of scheduling requirements for its present studio facilities, the availability of artists, the exigencies of actuality broadcasts and the nature of broadcast program production.

The Public Accounts Committee considered this matter with officers of the Corporation at its meeting on October 25, 1966 and, while recognizing that the payments must continue to be made in accordance with the provisions of the union agreements, it recommended that such payments be eliminated as and when the present union agreements come up for renewal (see Appendix 1, item 42).

Some of the union agreements were due to be renewed with effect from March 1968 but negotiations have not yet been completed and similar payments continue to be made by the Corporation.

65. *Inability of joint auditors to express an opinion as to the correctness of the revenues of the Canadian Corporation for the 1967 World Exhibition.* In their annual reports to the President and Members of the Board of the Canadian Corporation for the 1967 World Exhibition over the past five years, the Provincial Auditor of Quebec and the Auditor General of Canada, joint auditors of the Corporation, have stressed the importance of the Corporation establishing and maintaining an adequate system of internal financial control.

Prior to the opening of the Exhibition, the auditors drew to the Corporation's attention certain aspects of internal financial control that required improvement and certain important decisions that had to be taken before the opening of the Exhibition with respect to the procedures to be followed during the Exhibition for the handling of the substantial amounts of cash and the recording of revenues from admission passports, tickets, parking fees and other sources. However, action taken was not adequate and serious breakdowns developed in the control of on-site revenues shortly after the Exhibition opened on April 28, 1967. Furthermore, the remedial action eventually taken did not correct all major weaknesses and the joint auditors were unable to express an opinion as to the correctness of revenues aggregating $101,438,000 of a total of $140,984,000. This situation was communicated by the auditors to the Minister of Trade and Commerce on July 30, 1968 and to the Minister of Industry and Commerce of the Province of Quebec on July 31, 1968.

The most recent annual report of the Corporation, including the report of the joint auditors, was delayed because of the inability of the Corporation to finalize the accounts and answer the auditors' queries. This report, which pursuant to the requirements of section 18 of the Canadian Corporation for the 1967 World Exhibition Act, *1962-63, c.12*, should have been submitted by the Corporation to the Minister within three months of the close of the financial year on December 31, 1967 and laid by him before Parliament within 15 days of receipt thereof, was not tabled in the House until October 2, 1968.

66. *Disposition of major assets—Canadian Corporation for the 1967 World Exhibition*. Paragraph 270 in the Crown Corporations section of this Report sets forth information pertaining to the operations for the year of the Canadian Corporation for the 1967 World Exhibition.

An agreement between Canada, the Province of Quebec and the City of Montreal confirming acceptance of the legislation establishing and governing the Corporation was executed on January 18, 1963 and contained clauses outlining certain "settlements" between the Corporation and the three governments after the closing of the Exhibition on October 29, 1967. In the joint auditors' reports to management and in our Reports to the House of Commons in previous years (paragraph 61 in 1967) it was pointed out that the clauses of the agreement dealing with the distribution of assets and liabilities on the winding up of the affairs of the Corporation appeared to be expressed in such general terms that there could be difficulties in their ultimate interpretation and implementation. However, no action was taken to clarify these clauses.

Clause 12 of the agreement provided for the distribution of assets and liabilities to the three governments on the winding up of the Corporation on the basis of the cash contributions made by them as set forth in clause 9, namely Canada 50%, the Province of Quebec 37½%, and the City of Montreal 12½%. The agreement did not stipulate either the manner of valuing immovable assets erected on property belonging to the respective governments or details pertaining to the assumption by them of the liabilities.

However, the assets were not distributed in the manner apparently contemplated by this agreement. On the authority of the Governor in Council and the Lieutenant-Governor in Council, ownership of the bulk of the Corporation's capital assets was transferred at December 31, 1967 to the three governments for the nominal sum of $1. This distribution was effected mainly on the basis of each government receiving the immovables erected on the property provided by that government for the holding of the Exhibition. Under this arrangement, assets which cost the Corporation an estimated $199,725,000 were transferred as follows:

Canada	$ 59,876,000
Province of Quebec	4,754,000
City of Montreal	135,095,000
	$ 199,725,000

The cost of the assets transferred to the three governments was written off by the Corporation in determining the net cost of the Exhibition to December 31, 1967

($273,589,000). In accordance with the agreement of January 18, 1963 the net cost was then distributed among the governments. After deducting the amounts of their respective grants, totalling $40,000,000, the remaining portion of the deficit was charged as follows:

Canada	$ 116,794,000
Province of Quebec	87,596,000
City of Montreal	29,199,000
	$ 233,589,000

Confirmation of the correctness of these sums was requested from the three governments and, as Montreal did not reply, the statutory audit report of the joint auditors was qualified to this effect.

Five months after the transfer of these assets to Canada, Quebec and Montreal, the Chairman of the Executive Committee of the City of Montreal advised the Corporation that it was the City's intention to reopen with Canada and Quebec the matter of the distribution of the net cost of the Exhibition. Montreal to date has not made any arrangements with respect to assuming any portion of its share of the deficit which it is estimated will aggregate approximately $32 million by March 31, 1969, based on the terms of the agreement of January 18, 1963.

67. *Salaries and termination payments.* The joint auditors of the Canadian Corporation for the 1967 World Exhibition on several occasions directed the attention of management and the Board of Directors to practices followed by the Corporation which were inconsistent with those of other Crown corporations and government agencies.

The following is a summary of certain of these practices relating to salaries and termination payments:

> SALARIES. The Corporation's approved plans of organization show the number of officers and employees, the classes of positions and the salary range for each class established with the approval of the federal and provincial Treasury Boards and the Public Service Commission of Canada.
>
> In the case of many appointments to senior positions, starting salaries were higher than the established minimum rates and frequently maximum rates were paid immediately or within six months of appointment. Thirty-three officers in receipt of salaries of $10,000 or more received increases during 1967 ranging from 20% to 60%. Of these employees, 10 left the Corporation's employ in 1967 and received salary termination payments averaging 27% of annual salary.
>
> Delays in the processing of the forms necessary to bring new employees onto the payroll in 1967 resulted in the Corporation having to resort to advance payment of salaries on an estimated basis during the months of June and July. These advances were to be recovered when the regular salary cheques became available but in some instances this was not done and overpayments occurred of which approximately $37,000 had not been recovered by the year-end.
>
> About 2,400 employees, 25% of the Corporation's work force, received overtime pay ranging from $1,000 to $19,000 during 1967 at a cost to the Corporation of nearly $4.[illegible] million.

TERMINATION PAYMENTS. The collective labour agreement between the Montreal Labour Council and the Conseil National des Syndicats Nationaux and the Corporation provides for payment to employees with at least one year's service of an amount equivalent to 4% of total earnings and for unused sick leave on termination of service when they are no longer required. This benefit arrangement, which was to assist employees over the period between the time of their release and their establishment in new positions, was also extended to the remainder of the Corporation's staff.

However, payments were made to all employees including those who did not qualify because their former or comparable positions were assured. Twelve such payments aggregating $70,000 came to our attention during the year, the largest being $15,425.

Termination payments totalling $4,694,000 were provided for in the 1967 accounts but it is estimated that an additional $1,188,000 will be required.

68. *Cost of Habitat '67 and Theme buildings.* Of the total capital expenditure of the Canadian Corporation for the 1967 World Exhibition amounting to $213 million, the design and construction of three buildings, Habitat '67 and two Theme buildings, "Man the Producer" and "Man the Explorer", accounted for $43.2 million. The following is a brief outline of the increases in the costs of these buildings:

HABITAT '67. This building, one of the principal exhibits undertaken by the Corporation, represented a new concept in community housing.

The first revised overall plan for the Exhibition, adopted early in 1965, included provision for capital costs of $11.5 million for Habitat '67. Later in 1965, notwithstanding a report of two independent experts which questioned whether the design of the project was sufficiently advanced for tenders to be called, the Corporation called for tenders and awarded the contract for $10,510,000. The contract did, however, recognize the possibility that this price would have to be amended as construction of this unique project proceeded. As predicted by the experts, important design changes were required which resulted in substantial claims from the contractor for increased costs of material, labour and equipment and for costs attributable to extensive delays in the performance of various aspects of the work. At December 31, 1967 the total cost of the contract amounted to $17,982,000, an increase of $7,472,000 or 71% over the original contract price. Although $1,150,000 of this increase can be attributed to the delayed receipt of drawings and specifications by the contractor, it is evident there were additional delay costs not specifically identifiable.

A summary of the cost of Habitat '67 follows:

Construction	$ 17,982,000
Architect's fees	1,891,000
Rental of cranes	1,045,000
Other	1,768,000
	$ 22,686,000

The high cost of this project, which provided 115 completed units and 43 unfinished units, is attributed to it being the first of its kind ever to be constructed.

THEME BUILDINGS. The first revised overall plan for the Exhibition also included $9,115,000 for construction of the two Theme buildings and in October 1965 the Corporation awarded

two contracts totalling $11,236,000 for the construction of these buildings. However, at that time 25% of the design work, representing the most complex parts of the total designs for the buildings, was incomplete and the contracts gave recognition to additional costs which might be incurred. The final cost of $18,292,000 for the buildings, an increase of $7,056,000 or 63% over the original contract prices, included approximately $1,950,000 to compensate the contractors for delays arising from the non-availability of drawings and specifications when required. Fees of $2,268,000 paid to the consulting architects for the buildings brought the total cost to $20,560,000.

69. *Loss on operation of rented apartment building.* In order to ensure that hotel accommodation was available for artists and others connected with the 1967 World Exhibition in an important capacity, the Canadian Corporation for the 1967 World Exhibition leased a furnished apartment building for the Exhibition period and provided rooms and suites to these people on a daily basis.

The direct costs of operating the apartment building amounted to $1,076,000, excluding building staff salaries which were not segregated from other expenses of the Exhibition. Of this amount, $1,038,000 was the rental paid for the building for a period of six months. Revenues amounted to $731,000 of which $515,000, representing the value of free accommodation provided to artists under the terms of their contracts with the Corporation, was charged to the Performing Arts Program.

The resulting loss of $345,000 was mainly attributable to revenues lost through vacancies. In May, June and July the occupancy rate was 58%. For the last three months the Corporation reduced its room rates by about 20% and achieved an occupancy rate of 86%.

70. *Cost of sewage-disposal units.* In August 1965 the Canadian Corporation for the 1967 World Exhibition entered into a contract with the City of Montreal under which it undertook to construct on behalf of the City two sewage-disposal units, which ultimately cost $2,402,000, and to pay 60% of their cost as rental for their use during the period of the Exhibition.

Correspondence on file indicates that the City was eligible for a rebate of federal sales tax on these sewage-disposal units estimated at $100,000 and it would appear that this should have been applied against the cost of the units in determining the rental to be paid by the Corporation. However, the Corporation has paid rental on the original cost with no adjustment with respect to the sales tax rebate.

Lift stations for the sewage-disposal units were constructed by the Corporation at an additional cost of $357,000. This amount was billed to the City but the billing was later withdrawn on the advice of the Corporation's legal advisers that it had no claim on the City because of failure to obtain the necessary prior approval of the City for the construction of the lift stations. Thus the Corporation has borne the full cost of these lift stations.

71. *Cost of repairs to sanitary sewer system.* When the sanitary sewer system in one part of the site of the 1967 World Exhibition developed faults, the Canadian Corporation for the 1967 World Exhibition entered into an agreement with the contractor who had been responsible for its construction to correct the faults and absorb the cost of certain of them, estimated at $40,000, with the Corporation to absorb the cost of correcting the remainder, expected to be approximately $55,000.

However, after the Corporation's share of the costs had increased substantially, it sought legal advice with respect to its position. It found that although it originally had a valid claim against the contractor for the entire cost, it was prevented from making such a claim by the agreement entered into with him at the time the repair work was commenced.

The Corporation then felt compelled to settle on the same basis with a second contractor involved in similar repairs to another section of the system.

The total cost of repairs was $618,000. After recovering $35,000 from the designers of the system and $100,000 from the contractors involved, the Corporation was forced to bear $483,000 of the cost of correcting the faults.

72. *Gas distribution system.* The Canadian Corporation for the 1967 World Exhibi- ion bore the full cost of $743,000 incurred in constructing a gas distribution system on the Exhibition site with ownership to be vested in the gas distribution company. The agreement with the company provided that, should the system prove to have an economic value after the close of the Exhibition, the Corporation would be reimbursed a portion of its costs based on the findings of an independent survey.

The distribution system is still in use but the Corporation, without pursuing the possibility of recovering part of its costs, has transferred its rights of recovery to the City of Montreal and Central Mortgage and Housing Corporation. Moreover, the approval of the Governor in Council, and the Lieutenant-Governor in Council of the Province of Quebec, for the transfer of these rights, as required under section 19(2) of the Canadian Corporation for the 1967 World Exhibition Act, *1962-63, c.12,* was not obtained.

73. *Cost of telephone service.* In order to provide telephone service on the Exhibi- ion site, the Canadian Corporation for the 1967 World Exhibition was required to pay $335,000 to the telephone company, over and above regular telephone charges, to cover construction costs which the company could not otherwise recover because of the requirement that all structures be demolished within six months after the closing of the Exhibition. Notwithstanding the fact that the structures were not demolished and the Exhibition site including the telephone installations continues to be used, the Corporation has not approached the telephone company with a view to the recovery of all or part of the construction costs.

The company was prepared to provide without charge 109 telephone booths but the Corporation decided that these booths were not acceptable from a design point of view and incurred an additional expenditure of $170,000 for the procurement of telephone booths of an acceptable design.

The telephone company paid concessionaires and exhibitors a commission of 14% of receipts from pay telephones located on their premises but the Corporation received no commission on these receipts, notwithstanding that the construction costs incurred in the establishment of these pay telephones were paid by the Corporation.

74. *Cost of cancelled spectacular on Parliament Hill.* In December 1965 the Centennial Commission was authorized to organize and present an open-air spectacular on Parliament Hill as a special feature of Canada's Centennial celebrations for two weeks during the summer of 1967, at a cost of $300,000. The spectacular was to have had a cast of up to 1,500 participants including groups of singers, military bands, high school bands and professional solo performers.

By March 1967 the estimated cost of the spectacular had risen to a minimum of $700,000, including a low public tender bid of $344,000 for the erection of a temporary grandstand to accommodate 6,600 people for each of the 14 performances.

In view of the increase in estimated cost, doubts concerning the success of the production and the small audience that would be reached, it was decided to cancel the spectacular.

Fees and expenses paid to the producer-director and his assistants, the star performer, the architect for the grandstand, the designers of settings, props and costumes, the composer of the musical score and others totalled $65,000.

75. *Deficit on inspection services.* The administration of the Gas Inspection Act, *R.S., c.129,* the Electricity Inspection Act, *R.S., c.94,* and the Weights and Measures Act, *R.S., c.292,* which was the responsibility of the Department of Trade and Commerce, has, since the year-end, been transferred to the Department of Consumer and Corporate Affairs. As authorized by these statutes, fees are charged for the related inspection services. Two of the statutes specify that fees are to be regulated so as to meet the cost of carrying these Acts into effect and, although the Weights and Measures Act does not explicitly require revenues from fees to match the cost of the inspection services, it is our view that they should do so.

In our Reports of the previous three years (paragraph 151 of our 1967 Report) we pointed out that direct costs of administration of these statutes had exceeded revenues for a number of years and recommended a complete reassessment of the rate structure in order to recover the cost of the services. There has been no change in the rate structure and, for the year ended March 31, 1968, direct costs of administration exceeded revenues by 68% compared with 22% in 1963-64. These costs include only salaries and expenses of district offices. The inclusion of the costs of administration, of operating a laboratory, and of services provided by other departments, would increase the deficit to an estimated $2,682,000.

As the following table shows, the deficit has been increasing steadily:

	Year ended March 31		
	1968	1966	1964
Inspection of electricity and gas—			
Direct costs	$ 1,583,000	$ 1,365,000	$ 1,193,000
Revenue	1,037,000	1,141,000	1,056,000
	546,000	224,000	137,000
Other costs	510,000	449,000	456,000
Deficit	1,056,000	673,000	593,000
Inspection of weights and measures—			
Direct costs	2,115,000	1,668,000	1,459,000
Revenue	1,169,000	1,153,000	1,117,000
	946,000	515,000	342,000
Other costs	680,000	526,000	557,000
Deficit	1,626,000	1,041,000	899,000
Total deficit	$ 2,682,000	$ 1,714,000	$ 1,492,000

Our understanding last year was that recommendations concerning amendments to the three Acts which would incorporate proposals in respect of the fee structure had been deferred "pending review of the recommendations which may be made by the [Special Joint Senate Commons] Committee [on Consumer Credit and Cost of Living] and which may have implications for the above-mentioned statutes".

The Committee's report did not include any recommendations concerning fees and there were no amendments to any of the Acts during the year.

In November 1968 the Department of Consumer and Corporate Affairs agreed that there should be a complete reassessment of the fee structure and stated that proposals were under development. They were undertaking a review of the inspection program which they expected would result in important changes. As these changes will have a bearing on the kind of fee structure that will be appropriate, some months may elapse before a revised schedule of fees can be introduced.

76. *Accidental discharge of fuel oil into waterfowl sanctuary, Burnaby, B.C.* After completion of the calibration of a tank truck by inspectors of the Vancouver Weights and Measures Office of the Department of Consumer and Corporate Affairs, 6,000 gallons of fuel oil were accidentally discharged into a pipe line leading to a storm sewer instead of being piped back into underground storage tanks. The oil flowed into a creek and a lake resulting in the destruction of a great many wild ducks.

The cost of replacing the oil was $800 and of cleaning it from the creek and lake, $4,400.

77. *Failure to file statements.* Section 121F of the Canada Corporations Act, *R.S., c.53,* requires a public company to file a copy of its financial statement with the Registrar General (Department of Consumer and Corporate Affairs) within seven days after mailing to its shareholders. A filing fee of $5 is set by the tariff of fees.

In our 1967 Report (paragraph 149) attention was drawn to 875 public companies in default in filing statements and to 282 companies which had never filed a financial statement since incorporation, some as far back as 1917. At March 31, 1968 the corresponding figures were 733 companies in default and 257 companies which had never filed a financial statement. The Act makes no provision for penalties for failure to file financial statements and there appears to be nothing that the Registrar General can do to enforce such filing.

Section 125 of the Act requires every company (both public and private) to file with the Registrar General annual returns on or before the first day of June in every year giving certain information concerning the company and its directors. The annual filing fee is $5 or $10 depending on whether the company has share capital or is without share capital. Section 125 also provides for a fine on summary conviction not exceeding $20 a day where a company, its directors or officers, are in default in the filing of the annual return. To the best of our knowledge this penalty clause has never been invoked.

If companies do not file annual returns for two consecutive years there is provision in section 125 for the Registrar General to give a year's notice that the company will be dissolved unless it files the returns as required. This year the number of companies in default is 7,707 compared with 7,143 a year ago. The names of 1,060 companies have been published in the Canada Gazette for failure to file. Of these, 235 filed the returns upon publication of the notice and the remaining 825 are in the process of being dissolved. As in the past, no action was taken against any of the active companies for failure to file returns and the penalty provisions of section 125 of the Act remained inoperative.

78. *Disposal of surplus plant.* In paragraph 63 of our 1967 Report we referred to the sale by the Department of Defence Production of the Val Rose plant formerly operated by Canadian Arsenals Limited. The purchaser of this plant also leased the Louise Basin plant at Quebec, Que., in November 1966 and operated it under a management agreement until March 31, 1968.

During this period the purchaser increased employment in the Louise Basin plant from 35 to 200, an expansion based primarily on his success in obtaining United States contracts for the production of shell cases. However, in view of the fact that the United States Armed Services Procurement Regulation, which permits Canadian firms to participate in the production of military equipment and material involving programs of interest to both nations, does not anticipate bids or proposals that contemplate contract performance in Canadian government-owned or -operated installations in competition with United States firms, it was necessary that the plant be owned by private interests if it were to continue to receive orders from the United States. Therefore, the lessee approached the Crown with a view to purchasing the plant.

Competitive proposals were not solicited because in the Department's view there was no other known company with the background knowledge and production skills required to maintain an uninterrupted supply of shell cases for the United States market, and time was of the essence in order to ensure continuity of export orders necessary for the economic operation of the plant.

The plant, which cost $5,087,000 and is estimated to have a depreciated replacement value of $3 million, is built on land leased from the National Harbours Board. It is the only Canadian facility for the production of large-calibre cases and, although for 1964-65 and 1965-66 it had operated at a small profit, it could not be kept operating at economic production levels satisfying only the needs of the Canadian Armed Forces.

The current market value of the facility as a going concern, arrived at by an independent professional appraiser, was $1,150,000. The appraiser was instructed not to take into consideration the fact that the building is located on leased land but to value it as if the lease existed for the balance of the life of the structure. He gave most weight to the following factors in estimating the market value:

(1) costs of development work, engineering, alterations to existing equipment to adapt it to other uses;
(2) obsolescence of equipment due to its special design and limitations;
(3) uncertainty of future markets for present product; and
(4) obligation of a potential purchaser to maintain present production capability for a minimum period of ten years.

The Department considered the appraiser's valuation high because: the plant is single purpose and is valuable to an operator only if the market for shell cases continues to provide a high and steady volume; the provision of production capability for Canadian requirements over a ten-year period limits the purchaser's ability to adapt to changing market conditions; and although the National Harbours Board had agreed to enter into a ten-year lease with the purchaser, there is an element of risk related to lack of title to the land, coupled with the requirement to maintain a ten-year production capability which is highlighted by the Department's estimate that it would cost $625,000 to relocate equipment in another plant.

Negotiations were entered into with the lessee and in March 1968 the plant was sold for $450,000, payment to be spread over a period of nine years with the unpaid balance bearing interest at 8%.

79. *Sale of Crown-owned foundry.* In November 1967 the Treasury Board approved entry by the Department of Defence Production into an agreement for the sale of a light-alloy foundry. Although the purchaser took charge of the foundry on December 5, 1967 and signed a preliminary agreement of sale in April 1968, the formal agreement transferring title to the property and embodying the various terms of the acquisition was not signed by the purchaser until November 1968.

The proposed sale was discussed by members of the House of Commons sitting in Committee of Supply on March 19, 20 and 21, 1968. Following this the House approved

Supplementary Estimates (C) 1967-68 which provided the Department of Defence Production with $480,000 in Vote 6 to reimburse the Defence Production Revolving Fund for the losses sustained in the operation of the foundry prior to its sale, and $740,000 in Vote 7 to pay the obligations of the foundry outstanding at September 30, 1967. The amount of $480,000 actually included $21,000 for which a former partner-manager is responsible and from whom the Department is trying to effect recovery.

The foundry is located on eight acres of land at Haley Station, 14 miles from Renfrew, Ont. It was built and equipped by the Crown in 1951 at a cost of approximately $2.7 million to provide a Canadian source of high-grade magnesium and aluminium castings, and its assessed value for municipal tax purposes is $431,000. From 1951 to 1962, when the foundry was being operated by a private company under a management agreement, sales of defence supplies totalled $16.6 million and the Crown received plant rentals of $737,000. It has been estimated that during this period the foundry supplied about 1.5% of the North American market.

The management company withdrew in 1962 because of a decline in business and mounting operating losses and the foundry has since been operated under a variety of business arrangements, including a partnership with a manager. The results of these operations, after applying Deficit Account adjustments to the appropriate year, are summarized as follows:

Year ended September 30	Gross sales	Loss (profit)	Department's share of loss (profit)
1963	$ 778,000	$ (55,000)	$ (55,000)
1964	816,000	156,000	130,000
1965	1,490,000	42,000	36,000
1966	2,126,000	(101,000)	(68,000)
1967	1,823,000	320,000	297,000
1968 (3 months operations)	388,000	173,000	119,000
	$ 7,421,000	$ 535,000	$ 459,000

In determining these profit and loss figures, depreciation of the Crown's investment, grants in lieu of municipal taxes totalling $210,000, and building alteration and maintenance projects totalling $54,000 have not been taken into account.

During the period of these operations the Department attempted to interest some 27 Canadian and several United States firms in acquiring the foundry and continuing its operations. It was not successful until it agreed to sell it for a nominal price and a share of the profits in the ensuing five years of operation.

The agreement of sale and related undertakings include the following:

1. The purchaser has agreed to continue the foundry operation for a minimum period of two years from December 30, 1967. However, there is no penalty provision in case this is not carried out.
2. The purchaser will undertake necessary repairs and maintenance.

3. All outstanding shares of the operating company were acquired by the purchaser at the book value of $7.
4. Clear title to land, buildings and equipment in use at the foundry will be transferred from the Crown to the operating company.
5. The Crown will receive 50% of any profit earned in the years ending December 31, 1968 and 1969; and the lesser of $90,000 or 50% of any profit earned in the years ending December 31, 1970, 1971 and 1972. It has been estimated that the Crown may receive $165,000 under this provision.

In addition, the Treasury Board approved assistance to the operating company under the defence industry modernization program in the amount of $457,000, of which the company is required to repay 50% over a five-year period.

80. *Disposal of surplus forging facility.* The Crown owns a heavy forging facility located within the premises of a privately-owned company in Nova Scotia. The main component, a 7,000-ton press, together with ancillary equipment, and the building in which the facility is housed were erected in 1951 on land purchased from the company for one dollar; the accumulated cost is now about $3.6 million. By agreement between the Crown and the company in 1951 the facility was established to forge components for propulsion equipment in destroyer escort vessels at the rate of 30 shipsets per year. However, only 20 shipsets plus spares were produced over a period of about ten years. This operation ended in 1964 and since then the facility has been used by the company exclusively for commercial work under a rental agreement with the Crown.

The average annual rental over the last few years has been about $19,000, but when overhead and maintenance charges by the company and grants in lieu of taxes are taken into consideration the average annual net cost to the Crown has been about $35,000. In addition, the cost of major repairs, which has amounted to $46,000 since November 1962, must also be taken into account.

In March 1966 it was agreed that the facility was surplus to defence requirements and since then the Department of Defence Production has examined a number of methods of disposal, taking into consideration, among other things, the effect on the community. Its removal has been vigorously opposed by the provincial government and others because it would involve the loss of 50 to 60 jobs. Furthermore, information on file indicates that the cost of scrapping could exceed the amount realized and the Department's estimates of dismantling, transportation and reinstallation costs, should the facility be sold to other than the company, range from $300,000 to $600,000. There has never been an independent appraisal, but a departmental estimate of the current value of all the chattels for use on the present site is about $500,000.

Lengthy negotiations with the company have taken place but in view of the marginal nature of its forging operation it is unwilling to pay more than a nominal amount of one dollar for the facility. The Department has approved in principle the negotiation of an agreement on this basis; however, the transfer has been delayed because the company has been unwilling to accept a Crown condition that the facility be kept in operation for a period of five years.

In the meantime, in the two and a half years since March 1966 when it was decided that the facility was surplus to requirements, it has cost the Crown about $128,000.

81. *Cost of unused hotel accommodation—government departments.* In anticipation of a shortage of hotel accommodation in the City of Montreal, the Department of Defence Production, at the request of the Treasury Board, entered into contracts with five hotels to ensure that accommodation would be available from April 1 to October 31, 1967 for personnel of 76 departments and agencies travelling to Montreal on business.

The cost of unoccupied accommodation during this period was $21,100 of which $10,300 was for a block of 16 rooms reserved for the use of the Department of Trade and Commerce. The reservation of these 16 rooms was discontinued effective May 19 when it was realized the Department had used only 156 of the 768 room nights available during the period from April 1 to May 18. A further $1,500 was charged to various departments whose personnel failed to cancel reservations for accommodation they did not require or did not give sufficient advance notice of changes in their requirements.

The remaining cost of $9,300 was for accommodation that the hotels were unable to rent to the general public after the Department of Defence Production had advised them each day which accommodation it would not require. (See also paragraph 63 of this Report.)

82. *Unauthorized use of the Defence Production Revolving Fund.* In our 1966 Report and again in last year's Report (paragraph 65) we drew attention to the improper practice of using the Defence Production Revolving Fund to finance the loan portion of the cost of purchasing machinery under the Defence Industry Modernization Program. Advances aggregating $10.4 million had been made for this purpose to March 31, 1967.

The practice was discontinued in 1967-68, funds for the loan portion of the assistance granted being provided in Department of Industry Vote L65. However, the Fund has not yet been reimbursed for the unauthorized advances although repayments totalling $1.9 million have reduced the balance to $8.5 million at March 31, 1968.

83. *Cost of abandoned information system.* Based on organizational and operational concepts accepted in 1965, the Canadian Government Repair Service of the Department of Defence Production decided in 1966 to develop a computerized information system for the operation and management of procurement, repair, overhaul and maintenance of all government office machines and equipment throughout Canada and to provide to departments certain information that the Royal Commission on Government Organization had indicated was desirable.

In June 1966 the Treasury Board approved the expenditure of $13,000 for data processing and computer programming necessary to convert the manually maintained machine history record system to magnetic tape, part of phase one of a four-phase plan for the establishment of the new system. The work continued until early 1967 by which time the $13,000 had been expended but only 45% of the work completed. Additional costs incurred during this period, which were related to this phase of the plan, are estimated by the Department at $56,000.

In the spring of 1967, the Department concluded that because of uncertainty as to the role of the Canadian Government Repair Service in the overall management of the 150,000 Crown-owned office machines, the machine history record should revert to a manual system that would meet only the requirements of the Service. The preliminary computer files have since been destroyed and expenditure of at least $69,000 must therefore be considered non-productive.

84. *Shared costs under a research contract not verified.* In our examination of contracts of the Department of Defence Production our attention was attracted to the following qualifications appearing in a report of the Audit Services Branch of the Office of the Comptroller of the Treasury dated November 1967, relating to a shared-cost research contract:

1. Although company officials indicated that the relevant books and records were stored at one of the company's locations, no one was able to trace any supporting records relating to the period from inception to January 1, 1965. This circumstance precluded the application of required audit procedures.
2. Costs to January 1, 1965 per the progress claims represented $75,861.23 or 77% of total costs per final claim.
3. Even if the above books and records were located, an opinion on total costs could not be expressed because of the inadequacy of the internal control during the years 1962, 1963 and 1964.
4. Since only 23% of the cost was incurred subsequent to the year 1964 and no other cost-reimbursable type contracts were subject to audit in the period, it was deemed not worthwhile to initiate audit procedures to arrive at an evaluation of the internal control relating to the years 1965, 1966, 1967.

Under the terms of the contract the Crown was to share 50% of the costs incurred, s determined in accordance with the Department of Defence Production costing nemorandum and verified by the Audit Services Branch, up to a maximum of $51,000. The project was completed to the Crown's satisfaction from a technical viewpoint and he contractor claimed a total of $49,000 as the Crown's share of the costs.

No decision has been made as to how the case will be disposed of and in the meanime payment of the final progress claim amounting to $556 is being withheld.

85. *Crown corporation expense borne by departmental appropriation.* In paragraph 6 of last year's Report reference was made to charges of $11,896 to the Department f Energy, Mines and Resources 1966-67 vote for Departmental Administration for gal fees incurred for searching titles to property on Cape Breton Island. The searches ere undertaken to facilitate the takeover of the property by the then proposed, and ow established, Cape Breton Development Corporation. We expressed the opinion hat, as these expenditures related directly to the purposes for which the Corporation as set up, they should have been recorded as accounts receivable and recovered from he Crown Corporation.

Payments of $27,000 were made for similar purposes in 1967-68 and no attempt was made to recover any of these amounts from the Cape Breton Development Corporation which came into being on October 1, 1967.

86. *Preferential treatment accorded by unpublished Variation Order.* The Emergency Gold Mining Assistance Act, *R.S., c.95,* was introduced in 1948 to provide the operators of marginal gold mines with assistance in meeting the rising costs of production. Pursuant to section 7 of the Act, the Governor in Council promulgated the Emergency Gold Mining Assistance Regulations which, dealing with the submission of claims by the mine operators, set forth in subsections (1) and (4) of section 3 that:

> (1) An operator of a mine, other than a placer mine, may apply for assistance payments in respect of the gold produced and sold in accordance with the Act during the whole of a year at any time within six months after the end of the year.
>
> (4) An application that is not made within the time required by subsection (1) or (2), as the case may be, is not acceptable for purposes of these Regulations.

On September 28, 1967, Order in Council P.C. 1967-1840 authorized an exception to the time limit set forth by extending, for one operator, the deadline for application for assistance payments in respect of the calendar year 1965 from June 30, 1966 to August 31, 1967. By so doing, the mine operator became eligible for assistance payments of $66,000. It is of concern that this Order in Council, cited as the Emergency Gold Mining Assistance Regulations Variation Order, was not published in the Canada Gazette as required by the Regulations Act, *R.S., c.235.* In the absence of such publication, it would not be apparent to members of Parliament and others that an exception to the general regulations had been made.

87. *Purchase and resale of aircraft.* A Canadian aircraft manufacturer had one of its aircraft located in the Middle East as a demonstrator. In June 1967 the United Nations Relief and Works Agency was faced with a refugee problem resulting from the fighting in the Middle East at that time and sought to lease this aircraft from the Canadian company. The company was not prepared to lease the aircraft to UNRWA but approached the Canadian External Aid Office suggesting that Canada might be interested in purchasing the aircraft as an aid contribution to UNRWA.

The aircraft was purchased by the External Aid Office for $120,000 in July 1967 and was loaned to UNRWA for one year with UNRWA to pay all operating costs.

In September 1967 UNRWA advised that operation of the aircraft had been discontinued because of the Agency's inability to obtain permission to use certain Israeli airports. UNRWA then returned the aircraft.

The External Aid Office, after an unsuccessful attempt to interest one of the developing countries in this aircraft, sold it back to the manufacturer in March 1968 for $100,000 less the cost, $4,300, of ferrying it back to Canada.

Storage, insurance, etc., on the aircraft from the time it was returned by UNRWA to the time it was resold to the Canadian manufacturer amounted to $1,400.

88. *Loans and advances representing grants.* Reference is made in paragraph 239 of this Report to certain loans made to Crown corporations and others for the repayment of which the debtors are dependent on further appropriations of Parliament.

The practice of making loans of this type instead of grants has had the effect of understating the deficit for the year as recorded in the Public Accounts and, to the extent that appropriations are provided in later years for repayment of the loans, the deficit will increase or the surplus decrease in those years.

The following additional loans of this type were made during 1967-68:

Canadian Broadcasting Corporation	$ 21,300,000
Canadian Corporation for the 1967 World Exhibition	30,000,000
National Capital Commission:	
Greenbelt	500,000
Other than Greenbelt	4,850,000
Government of the Northwest Territories	2,900,000
Government of the Yukon Territory	2,481,000
Northern Canada Power Commission	600,000
	$ 62,631,000

Had the above loans been recorded as grants in accordance with the overall policy with respect to these matters as is outlined in paragraph 239 of this Report, the deficit for the year would have been $62,631,000 greater.

Repayments during the year on loans of this type made in previous years were as follows:

Canadian Broadcasting Corporation	$ 2,890,000
National Capital Commission:	
Greenbelt	24,000
Other than Greenbelt	4,496,000
Government of the Northwest Territories	321,000
Government of the Yukon Territory	407,000
Town of Oromocto	227,000
	$ 8,365,000

These repayments were, with the exception of $272,000 derived from the sale of property by the National Capital Commission, all provided for in 1967-68 appropriations of Parliament. Had the loans been recorded as grants when originally made, these appropriations to enable repayment of principal would not have been required and the deficit for 1967-68 would therefore have been $8,093,000 less.

Certain of these loans call for payment of interest at varying rates and the following interest income was recorded during 1967-68 with respect to them:

Canadian Broadcasting Corporation	$ 3,760,000
Canadian Corporation for the 1967 World Exhibition	9,929,000
National Capital Commission	3,793,000
Government of the Northwest Territories	432,000
Government of the Yukon Territory	373,000
Town of Oromocto	216,000
	$ 18,503,000

Of this total, $8,078,000 was provided from 1967-68 appropriations of Parliament but this provision had no effect on the recorded deficit for the year as it is offset by the recording of an equivalent amount of income. However, both the expenditures and revenues of the year are greater by this amount than would have been the case had the funds advanced in previous years been recorded as grants rather than loans requiring payment of interest. Of the interest income received from the National Capital Commission, $486,000 was paid from property rental and other income.

The appropriations for the Canadian Broadcasting Corporation did not disclose that provision was being made for repayment of loans and payment of interest.

Interest income of $9,929,000 received from the Canadian Corporation for the 1967 World Exhibition was paid by the Corporation from the proceeds of additional loans and, as part of the Corporation's deficit, must eventually be covered by appropriations of Canada, the Province of Quebec and the City of Montreal.

89. *Indirect compensation to chartered banks.* It is the practice of the Government to maintain large balances on deposit with the chartered banks, receiving interest only on balances in excess of an aggregate interest-free amount of $100 million. This practice has been commented on in previous Reports (paragraph 69 in 1967) and the Public Accounts Committee on three occasions has expressed the view that if banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, *1953-54, c.48* (see Appendix 1, item 20).

Interest on the minimum weekly balance in excess of $100 million is calculated by the Department of Finance at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10% of that rate, and amounted to $23.4 million in 1967-68. The average effective rate was 4.6%.

Had interest been calculated at the same rates on the daily balance in excess of $100 million it would have yielded $2.4 million more revenue, and on the $100 million interest-free balance, an additional $4.2 million.

Section 93 of the Bank Act, *1966-67, c.87*, reads in part:

> 93. (2) The bank shall not make a charge for cashing a cheque or other instrument drawn on the Receiver General or on his account in the Bank of Canada or in any other bank, or for cashing any other instrument issued as authority for the payment of money out of the Consolidated Revenue Fund, or in respect of any cheque or other instrument drawn in favour of the Receiver General, the Government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the Receiver General.
>
> (3) Nothing in subsection (2) shall be construed to prohibit any arrangement between the Government of Canada and the bank concerning interest to be paid on any or all deposits of the Government of Canada with the bank.

The wording of these subsections was considered by the Public Accounts Committee prior to their enactment by Parliament. In its Seventh Report 1966-67 the Committee

expressed the opinion that the wording did not meet the recommendations of the Committee and it asked the Department of Finance for explanations on three points:

(1) why it considers that an amount of $100 million should be left on deposit with the chartered banks free of interest;

(2) why, if it considers that the chartered banks should be compensated for the service provided by them to the Government, it has not recommended that subsection (1) of section 93 of the Bank Act, *1953-54, c.48*, be amended to permit this; and

(3) what other means of compensating the banks for services rendered were considered and why they are being discarded.

As far as we are aware, the Department of Finance has not yet provided the explanations requested by the Committee.

In our opinion subsection (3) of section 93 of the Bank Act, *1966-67, c.87*, does not provide authority for officers of the Department of Finance to undertake to leave substantial amounts on deposit with the chartered banks without interest.

90. *Royal Canadian Mint.* A special project of the Mint for Centennial Year was the production of a presentation coin set containing a $20 gold coin and the other six Canadian coins, to be sold for $40. The Mint also produced, and sold for $4, sets containing the other six coins. The terms of sale were payment in full with the order and orders were to be filled in sequence of receipt date.

At the commencement of our annual examination of the store of bullion and coin at the Mint, we found that in the period May 26 to December 29, 1967, 10,600 of the $40 sets and 67,000 of the $4 sets with a total value of $692,000 had been shipped by a Mint employee without *bona fide* orders. To the best of our knowledge, full payment for these sets has been made and no loss resulted although the money relating to them was not deposited to the credit of the Receiver General until January 5, 1968. The orders used to effect shipment bore many names and addresses, including a number of fictitious ones, but it is our understanding that the coin sets were received by one particular coin dealer.

Failure of officials in the numismatic section of the Mint to take inventory of completed coin sets daily and to reconcile periodically the liability account for unshipped prepaid orders allowed a breakdown in the system of internal control to go undetected. There has been no action taken with respect to the employee who resigned after admitting responsibility for the irregular shipments.

We have pointed out to the Department of Finance that, as the Mint is primarily a manufacturing organization, it is not particularly well equipped to deal with the problems associated with the distribution of coin sets to dealers and the general public. For this reason we have suggested that consideration be given to alternative ways of handling this distribution.

Another breach of security occurred at the Mint in April 1968 when a die designed for the minting of coins was removed from the premises and was later recovered with the assistance of a coin dealer.

91. *Errors in Public Service Superannuation Account pension and contribution calculations.* In our Reports to the House for the past few years we have pointed out that our annual test audit of the superannuation accounts has disclosed a high incidence of error in the pension and contribution calculations. Since 1959 we have been recommending that the Superannuation Branch, when determining annuities to be paid, should verify contributions made in relation to salary earned and documents on file. This procedure would lead to the correction of errors made during the period of service and reduce the possibility of error in calculating the annuity.

In several of its reports the Public Accounts Committee has recorded its concern that this matter was taking so long to be corrected. In June 1966 the Comptroller of the Treasury appeared before the Public Accounts Committee and the Seventh Report 1966-67 of the Committee noted that "immediate steps were being taken to provide that the internal auditing procedures of the Superannuation Branch include an examination of the employee's contributions in relation to his salary and the documents on file along the lines recommended by the Auditor General". The Committee also recorded its understanding that "the introduction of this particular check should eliminate the majority of the errors and requests the Auditor General to continue to keep it fully informed on this matter" (see Appendix 1, item 17).

In paragraph 70 of our 1967 Report we noted that our test audit for 1966-67 disclosed a higher incidence of error than in the previous year. There was little improvement in the situation during 1967-68 and the number of errors in the calculations continued to be high in relation to the files examined in our test audit due largely to carelessness and a failure to accurately carry out the required procedures. We have reviewed the situation at length with senior officers of the Comptroller of the Treasury who have outlined to us various steps that they propose to take towards the improvement of the administration of the superannuation accounts.

92. *Limited competition for government business.* In paragraph 71 of our 1967 Report we referred to the engraving of postage stamps, other revenue stamps and labels, bonds, paper currency, passports and other documents and forms required by the Government which has been carried out almost exclusively by two firms for many years. We pointed out that where there is a very narrow field of competition for government contracts, there is always a danger that excessive profits may be made at the expense of the Crown, and we suggested that provision should be made in the contracts with these companies for an audit of the costs of carrying out the contract.

We have been informed by the Deputy Minister of Finance that a cost audit could be made under a provision in the present contracts which permits the Minister to examine the books of the contractor. However, such an audit was not being requested as the Treasury Board was reviewing the business done with these companies, and a study team consisting of representatives of interested departments and agencies was to be established "to develop a procedure that will provide the most economical procurement of security printing consistent with the standards of security and quality required and the viability of the two existing commercial sources."

Improvement in existing procurement practices is always important but, in our opinion, in cases where competition is extremely limited, audits of production costs are also important in order to establish whether or not excessive profits are being taken on government contracts. To the best of our knowledge no such audits have ever been carried out.

93. *Exchange Fund Account.* In a report to the Public Accounts Committee (Minutes of Proceedings and Evidence No. 16, July 21, 1964) the Minister of Finance stated:

> I propose that in future, commencing with this year or as soon as the necessary parliamentary authority is obtained, the annual balance of profit or loss arising from trading operations and investment, including interest and discount on securities, trading profits and losses on purchases and sales of foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year should be transferred to the Consolidated Revenue Fund.

He then went on to say that:

> Authority will be required from Parliament to recoup the Exchange Fund for any deficit in accordance with the course of action I have proposed and some change in the law is desirable to make clear the authority to transfer profits or surpluses to the Consolidated Revenue Fund.

Since 1964 the operations of the Exchange Fund Account have resulted in the following profits and loss arising from trading operations, etc.:

	Profit	Loss
1964	$ 1,449,000	$
1965	1,406,000	
1966		553,000
1967	2,336,000	

It was not until 1966 that Parliament was requested to provide the authority to transfer profits to the Consolidated Revenue Fund and Appropriation Act No. 9, 1966, *1966-67, c.55,* included Department of Finance Vote 23a which reads as follows:

> To authorize, notwithstanding the Currency, Mint and Exchange Fund Act, the transfer from the Exchange Fund Account to the Consolidated Revenue Fund of the profit for the calendar year 1964 and each subsequent calendar year from trading operations in foreign exchange, gold and securities, and from the net valuation adjustments on unmatched purchases or sales during each such year.

In the year 1967 an amount of $2,302,000 was transferred to the Consolidated Revenue Fund, representing profits for the years 1964 and 1965 less the loss for 1966. We pointed out to the Minister of Finance that as the legislation called for the profits to be transferred, it was not being complied with if these profits were reduced by a loss in another year. This was rectified by including the loss of $553,000 for 1966 which had been deducted from the 1967 transfer with the profit of $2,336,000 for 1967 which was transferred to the Consolidated Revenue Fund in 1968.

However, no provision has been made in Estimates placed before Parliament to cover the 1966 Exchange Fund loss of $553,000; so the policy of transferring annual profits or losses from the Fund, as outlined by the Minister of Finance to the Public Accounts Committee in 1964, has not been fully implemented.

94. *Subsidization of Fishermen's Indemnity Plan.* For several successive years (1967, paragraph 73) we have referred to accounts maintained in connection with the Fishermen's Indemnity Plan which was introduced in 1953-54. From the outset there were two accounts, the Fishing Vessel Indemnity Account and the Lobster Trap Indemnity Account. In 1966 a third account, the Fixed Fishing Gear and Shore Installations Indemnity Account, was added. Although the Plan was intended to be self-supporting (except for its administrative costs which are met through parliamentary appropriations) all Accounts have recorded net deficits since their inception.

The deficits in the three Accounts during the year in comparison with the deficits in the previous year were as follows:

	Year ended March 31	
	1968	1967
Fishing Vessel Indemnity Account	$ 133,000	$ 113,000
Lobster Trap Indemnity Account	5,000	5,000
Fixed Fishing Gear and Shore Installations Indemnity Account	20,000	14,000
	$ 158,000	$ 132,000

Several years ago, concern of the Department of Fisheries with an all-time high deficit of $168,000 in the Fishing Vessel Indemnity Account in 1963-64 resulted in a study which, in part, was directed to ascertaining what changes in the regulations were practicable or to what extent premium rates should be revised. In June 1968 this study culminated in the introduction of new regulations embodying increased premium rates which are expected to make this element of the Plan viable.

The limited extent to which fishermen have availed themselves of the Lobster Trap Indemnity facilities in recent years was again demonstrated by the fact that premium revenue for the year amounted to only $2,300. A report by a study group has recommended a self-supporting plan of catch insurance, the development and application of which would be a fairly long-term undertaking. Basic to this recommendation is the fact that the causal factor underlying poor seasons is seldom loss of traps but is more likely to be a combination of other circumstances such as low stock densities, poor weather, cold water, and sudden marked increases in competition.

From its inception on February 1, 1966 to March 31, 1968 the Fixed Fishing Gear and Shore Installations Indemnity Account showed net premium income of $12,000 and claims paid of $46,000. A consequence of the first year's experience was amendments to the rate structure in July 1967 which it was felt might result in an improved actuarial

picture. In October 1968, however, the Department announced the immediate discontinuance of this part of the Indemnity Plan because of insufficient participation by fishermen.

95. *Free accommodation for international commission without parliamentary sanction.* In our 1965 Report we expressed the view that subsidy in the form of free accommodation provided to international commissions should be drawn to the attention of Parliament in the annual Estimates. We referred to the case of the International Commission for the Northwest Atlantic Fisheries which was occupying space in a government-owned building in Dartmouth, N.S., without any rental charges. This situation has continued and the present lease provides for occupancy to July 31, 1970.

In the interests of effective disclosure to Parliament, subsidization of this Commission should be revealed in the Estimates either by the Department of Fisheries, which supervises Canada's participation in the International Commission, or by the Department of Energy, Mines and Resources, which has jurisdiction over the building.

96. *Continued upkeep of facilities by the Maritime Marshland Rehabilitation Administration.* In our past two Reports (paragraph 75 in 1967) we referred to the substantial costs incurred under agreements entered into in 1949 with the Provinces of New Brunswick and Nova Scotia, pursuant to the Maritime Marshland Rehabilitation Act, *R.S., c.175*. We stated that the provisions of the Act indicated that Parliament had intended the Provinces to assume responsibility for operation and maintenance of the works concerned without undue delay upon completion, but neither Province had been required to do so. Instead, arrangements had been made for Canada to continue meeting the upkeep costs until March 31, 1970.

During the year, $152,000 was expended for administration, operation and maintenance, and $1,331,000 for construction of works, charged to Votes 25 and 30 of the Department of Forestry and Rural Development. This brought to $25,025,000 the total expenditure on these facilities over the period from their inception to March 31, 1968.

We have been informed that as of April 1, 1968 the Province of Nova Scotia had assumed operational responsibility for 66 of 86 projects and the Province of New Brunswick for 32 of 40 projects.

97. *Property purchased for substantially more than appraised value.* The Department of Forestry and Rural Development required land within a reasonable distance of its Winnipeg laboratory on which to initiate the development of a tree research nursery and test area in the spring of 1968. The Department decided that a parcel of land comprising approximately 140 acres located in the Rural Municipality of Springfield would meet requirements. The Department of Public Works was asked to carry out preliminary negotiations and in December 1967, after a detailed study, found that the fair market value of the property, purchased for $9,200 by the owner in 1963 and 1964, was $21,000. The owner, however, asked $35,000, attributing the difference to the recreational value of the property to him.

The Department of Forestry and Rural Development did not favour expropriation proceedings because this might delay final settlement until the following fiscal year when funds for the purpose would not be available. Accordingly, Treasury Board approval was sought to purchase the property at the asking price of $35,000. Initially the Department was informed by the Board's secretariat that another evaluation of the land was required; that if it were comparable to that made by the Department of Public Works, expropriation would be proposed. However, after further representations by the Department for an early conclusion of the purchase, the Treasury Board approved of the $35,000 price and payment was made in March 1968.

98. *Loan to Indian band recorded as a grant.* In March 1967 an Indian band sought financial assistance of $20,000 from the Department of Indian Affairs and Northern Development to meet expenses in connection with the negotiation of a settlement for Reserve lands expropriated by The St. Lawrence Seaway Authority. The Department, while agreeing to seek Treasury Board approval of the payment, attached certain conditions, one being that the assistance sought would be recoverable from the moneys which would be paid eventually to the band by the Authority. The band agreed to this condition.

Treasury Board authority to make the payment as a grant was obtained but there was no reference to the repayment requirement in the submission to the Board. The payment which followed was charged to the Department's Vote 5, specifically to an allotment for "Band Council Grants, including Reserve Improvement Grants".

In our view the payment was a loan and should have been recorded as such instead of being charged as an expenditure of the year.

99. *Loan to co-operative association recorded as a grant.* In 1965 the Indian and Metis people of the Wabasca area of Alberta formed a co-operative association as a logging and lumbering entity. By early 1968 the timber adjacent to the Wabasca community was largely depleted or was committed to other interests, and it was evident that the existence of the enterprise would depend on the acquisition of two timber quota licences at a public auction sale to be conducted in February by the Alberta Forest Service.

The co-operative arranged with a provincial Crown corporation to advance the funds which it was felt would be required. When it became apparent at the auction sale that available funds would be insufficient, a last-minute appeal was made to regional officers of the Department of Indian Affairs and Northern Development to match the funds provided by the corporation. An undertaking to make $15,000 available resulted in the quota licences being obtained.

The corporation paid the full amount required and sought reimbursement of the $15,000 advanced on behalf of the Department, at the same time undertaking to represent the Department's interest in the matter on a continuing basis. Payment of the $15,000 in March 1968 was charged to the Department's Vote 5, which provides for administration, operation and maintenance expenses of the Indian Affairs Branch.

Although a formal agreement remains to be signed, it is evident that the moneys advanced to the co-operative will be the subject of a loan agreement between the corporation and the co-operative and that repayments made by the co-operative will

e shared by the corporation equally with the Federal Government. In our view the payment was a loan and should have been recorded as such instead of as an expenditure of the year.

100. *Accounting for advances to Indian bands for housing construction.* Paragraph 30 of our 1967 Report referred to a program of the Department of Indian Affairs and Northern Development for the construction of houses on Indian reserves. Conditions had been established under which responsibility for the program and related financial resources would be transferred to Indian bands considered to be capable of managing their own affairs and interested in doing so.

One of the conditions approved by the Treasury Board was that "25% of the funds for the total annual program will be advanced at the start of construction, and the balance will be advanced as and when required pursuant to the Band submitting a certified statement of account". We reported that in 1966-67 approximately $100,000 had been advanced from the Department's Vote 35 and permitted to remain as a charge to the appropriation, although no accounting for the advances had been made by the year-end.

Further advances amounting to $329,000 were recorded as expenditure during the year. We have been able to establish the existence of statements of account in various forms totalling only $29,000 for 1966-67 and $150,000 for 1967-68.

Another requirement is that each band will "appoint a professional auditor who will set up an adequate system of accounting and records and will perform an annual audit of the books and records". The audit reports submitted certify to expenditures of $186,000 during the two-year period ending March 31, 1968. Departmental officials attach greater importance to the audit reports than to the certified statements of account. The importance of the reports is unquestioned, but we remain of the opinion that advances should not become a final charge to Vote 35 before a satisfactory accounting is made.

101. *Cost of acquisition of heavy equipment, Williams Lake, B.C.* In 1965 a local manager of the Indian Affairs Branch of the then Department of Citizenship and Immigration arranged with a supplier for the rental of a "tree farmer" at the rate of $950 per month for purposes of a forest training project.

In August 1967, when 17 months rent totalling $16,150 had been paid, the equipment was purchased at the regular cash price of $14,903. The supplier allowed 90% of the rent paid, $14,535, to apply on the purchase price and the balance of $368 was paid by the Department. The total paid for the equipment was therefore $16,518, or $1,615 in excess of the cash price.

In 1966 a second piece of equipment, a "wheeled loader", was rented from the same supplier at a rental of $2,500 per month. Rental of $30,000 was paid over a 12-month period, after which the equipment was purchased for a further payment of $24,500. This brought the actual cost to $54,500, which was $2,400 in excess of the supplier's original quotation of $52,100.

A significant factor in both cases was that when the need for the equipment aros the local manager found that his capital allotment was insufficient to permit purchase while his operation and maintenance allotment enabled him to enter into rental-purchas arrangements. The net result of the failure to observe normal purchasing practices was cost of $4,015 in excess of what otherwise would have been the purchase price.

102. *Inadequate accounting and financial control procedures, Indian agencies.* I paragraph 81 of our 1967 Report we commented upon the results of our examination o a number of the field offices maintained by the Department of Indian Affairs and Norther Development for the administration of its programs for the Indian population. We pointe to the need for a strengthening of financial control over field activities and described th areas of particular concern.

Altogether there are 68 of these offices and visits to nine of them in 1967-68 agai produced numerous criticisms, the more significant of which generally fell into the sam categories as those reported previously:

1. UNSATISFACTORY CASH HANDLING PROCEDURES. In almost every case the procedures fc the control of cash received through the mail were inadequate. Several instances wer noted in which the disposal of moneys on hand or in the bank had been unduly delayec
2. LACK OF PROPER INTERNAL CONTROL. The division of duties among office personnel wa inadequate in three instances. At most locations control over pre-numbered financi forms was either unsatisfactory or non-existent. Weaknesses in safekeeping and signin procedures were also observed.
3. UNSATISFACTORY ACCOUNTS RECEIVABLE PROCEDURES. The follow-up of outstanding ac counts was to a major extent unsatisfactory, and certain deficiencies were noted in th records and procedures and in the preparation of the annual report of indebtedness.
4. UNSATISFACTORY STORES AND EQUIPMENT CONTROL PROCEDURES. Inadequacies in th records were found at two offices. At one, revenue from the sale of equipment had bee deposited in the trust bank account instead of to the credit of the Receiver Genera and delivery had not been taken of a piece of equipment purchased from an India band more than a year earlier.
5. INADEQUATE PAYROLL RECORDS AND PROCEDURES. Shortcomings in the registration of a tendance existed at three locations.
6. UNSATISFACTORY WELFARE ADMINISTRATIVE PROCEDURES. In several instances the ca culation and documentation relative to welfare assistance was found unsatisfactory.
7. QUESTIONABLE MANAGEMENT OF BAND FUNDS. Section 68 of the Indian Act, *R.S., c. 14* enables the Governor in Council to permit a band to control, manage and expend i whole or in part its revenue moneys. Although it is a condition of this arrangement th there be an annual audit of the band's financial records, it was noted at one office th two bands which had received such permission some time before had not appointe auditors. At another office the auditors in two cases had drawn attention to inadequaci in the records and procedures and in three cases had indicated inability to express a opinion on the financial statements because of like deficiencies. The capital accoun of two of the bands had been used to finance revenue fund operations and to guarant revenue fund bank loans.
8. UNSATISFACTORY PROCEDURES WITH RESPECT TO LOANS MADE UNDER SECTIONS 64(h) AN 69 OF THE INDIAN ACT. The major criticism in this connection continued to be the lac

of positive action in the collection of amounts due under loans. During the year the outstanding loans made from the Consolidated Revenue Fund under section 69 of the Act increased from $1,112,000 to $1,447,000, and the arrears from $400,000 to $476,000. During the same period the outstanding loans from the capital funds of bands under section 64(h) increased from $183,000 to $218,000, and the arrears from $124,000 to $162,000.

We have been informed by the Department that remedial action has been taken t most of the offices examined. In addition, an internal audit group has been established nd general instructions have been issued with regard to payroll records and procedures, nternal control, the annual report of indebtedness and the audits of bands managing heir own revenue moneys pursuant to section 68 of the Indian Act.

103. *Inadequate control of stores at northern locations.* In our past three Reports paragraph 77 in 1967) reference has been made to the unsatisfactory control of and ccounting for stores at northern locations. In its Eighth Report 1966-67 the Public ccounts Committee expressed concern and urged the Department of Indian Affairs nd Northern Development to establish adequate controls on all stores in the North ith the least possible delay (see Appendix 1, item 41).

No audit examinations of stores in northern locations were made during the year. 'e have been informed that, while improvement of the stores situation in the North as not been rapid because of difficulties in recruiting suitable staff, progress has een made.

It is our intention to review this situation in the course of examinations at northern cations in 1968-69.

104. *Inadequate accounting and financial control procedures, Fort Smith, N.W.T.* In r 1965 Report we drew to attention major inadequacies in the accounting and financial ntrol procedures in the district and regional offices of the Department of Northern fairs and National Resources (now the Department of Indian Affairs and Northern evelopment) at Fort Smith. In paragraph 78 of our 1967 Report we pointed out that follow-up examination in April 1967 had revealed conditions to be substantially the me and we noted that the Department had organized a special study team which was proceed to the Mackenzie District in the autumn of 1967. The activities of this group ere to include an on-the-spot appraisal of the critical comments that had arisen from r earlier examination.

We were later informed that, although the staffing problem referred to by us in prior ars continued to give concern, steps had been taken both before and during the study am's assignment to effect improvements in the general areas of internal control, accounts eivable and accounts payable. Many of the functions formerly carried out by the Dertment have since been assumed by the Government of the Northwest Territories and understand that this transfer of responsibilities will be completed by April 1, 1969.

An examination during November 1968 of those activities remaining with the Fort ith regional office provided evidence both of improvements and continuing shortcom-

ings. A register of accountable forms instituted in October 1968 did not record supplies of these forms received before its inception. Delays were noted in the remitting of moneys by outlying offices to Fort Smith. Of the outstanding accounts of the Department of National Health and Welfare of $25,000 referred to in last year's Report, $8,000 had been collected leaving $17,000 still outstanding. Positive action towards the collection of water and sewer accounts owing at the time of our previous visit was not apparent. The processing of accounts payable continued to be subject to delays. Reconciliation of the stores working capital account was under way for the first time since October 1966.

105. *Additional costs resulting from airlifts of fuel oil to meet shortages.* During the year the Department of Indian Affairs and Northern Development found it necessary to meet fuel oil shortages at three locations in the Northwest Territories by air rather than water transportation at an additional cost of approximately $48,000.

Shipments to Coppermine and Gjoa Haven resulted in extra costs of about $35,300. A departmental investigation revealed three basic contributing causes:

(1) inadequate consumption records which made it impossible to determine in any particular location the exact fuel oil requirements;

(2) failure to make allowance for increased demand arising from public housing programs, pressures for increased lighting, increased use of electrical appliances, etc.; and

(3) only partial filling of the bulk storage tanks during the 1966 shipping season because of budgetary restrictions.

The Department has since taken steps to ensure that adequate oil consumption records are maintained and that estimates of future requirements make provision for new construction, new diesel equipment, and increased consumer demand. In any case general policy will be to fill tanks to capacity from the tanker ships.

A shipment to Pond Inlet cost an additional amount of about $12,700. In this case the shortage that required the airlift was due mainly to two accidents. A departmental tractor broke a fuel line running from the bulk storage tank resulting in the loss of several thousand gallons of oil. As the loss would not have occurred if a valve close to the tank had been closed, field officers have been reminded that valves must be kept closed when not in use. The second accident involved the pumping of about 3,000 gallons of water into the bulk tank by the Department of Transport tanker ship when in the process of discharging cargo in 1966. The error was not discovered until after the departure of the ship.

106. *Co-ordination of research and development assistance to industry.* The Crown stimulates industrial research and development by means of general grants authorized by the Industrial Research and Development Incentives Act, *1966-67, c.82,* which are available to all Canadian industrial firms carrying out research and development, and by the following programs designed to meet specific needs:

(1) a program to sustain technological capability in Canadian industry by supporting selected defence development projects administered by the Department of Industry;

(2) a program to promote and strengthen the research capability of Canadian industry in defence technologies, administered by the Defence Research Board;

(3) a program to stimulate the interest of Canadian industry in promoting the establishment of new industrial research facilities and the expansion of existing facilities, administered by the National Research Council; and

(4) a program to advance the technological capability of the Canadian manufacturing industry by supporting selected civil (non-defence) development projects, administered by the Department of Industry.

Other substantial amounts of Crown research funds are available to industry in he form of (a) research and general development costs included in overhead charges to government contracts, and (b) specific contracts for research and development of special equipment.

Scientific and technical co-ordination of the above specific programs is provided by our interlocking committees—one for each of the specific programs—whose members re drawn from the department or agency administering the program and from other nterested departments, with observers from the staff of the Treasury Board. A member ometimes serves on each of the four committees which are:

Interdepartmental Committee, Defence Export Development

Advisory Committee on Defence Industrial Research

National Research Council Advisory Committee on Industrial Research Assistance

Program for the Advancement of Industrial Technology Advisory Committee

In our opinion, consideration should be given to a reassessment of this interlocking dvisory committee method of achieving scientific and technical co-ordination of the arious programs, taking into consideration whether:

(1) the classification of programs as defence and non-defence is still appropriate;

(2) the programs should be administered by a number of different government agencies; and

(3) co-ordination should embrace independent industrial research and development projects whose costs are included in overhead charges applied to government contracts, and specific procurement contracts involving research and development of new products.

With regard to financial co-ordination of research and development expenditure, nsideration should be given to the maintenance of a central record of payments by rojects and companies, possibly in the Department of Industry. In addition to providg for overall financial co-ordination of the various programs, such a record would rovide the Department with information essential to the administration of the Indusial Research and Development Incentives Act and enable the Audit Services Branch the Comptroller of the Treasury to co-ordinate its audit effort and thereby make it ore effective by covering the projects under all programs engaged in by a company eing visited. An example of what can happen in the absence of such a central record given in paragraph 143 of this Report.

107. *Ineffective expenditure by the Department of Industry.* Vote 5 of this Department is provided:

> To sustain technological capability in Canadian industry by supporting selected defence development programs, on terms and conditions approved by the Treasury Board...

Usually this objective is achieved by supporting development work which, when undertaken in Canada, serves to sustain technological capability in Canada and may result in subsequent production.

During the year we noted that $552,000 of the $602,000 cost of a project definition study, financed entirely by Canada and charged to this Vote, was in respect of work conducted in the United States by the parent of a Canadian company. The study related to the development of armoured reconnaissance vehicles in co-operation with several other countries and was undertaken in the hope of gaining for Canadian industry some of the subsequent development work and some, if not all, of the eventual production contracts from interested governments. It was estimated that sales would exceed $100 million. The Department thought this expectation possible of fulfilment even though:

(1) agreement on design of the vehicle would involve co-operation or some compromise in meeting the military characteristics desired by the several governments, which had already led to the decision to consider development of two related vehicles with common components rather than one vehicle as originally envisaged;

(2) it was estimated that the United States would purchase 80% of the vehicles and could be expected to insist on a major share of production;

(3) competition had been minimal because the Department had discussed the project only with manufacturers who had a Canadian production facility or who, with Crown assistance, were prepared to establish one; and

(4) the United States parent of the Canadian subsidiary stated that if subsequent development and production engineering work began, it would move experienced management and engineering staff to Canada to enable the work to be carried out to the fullest extent possible in Canada, but did not agree that it would bid for subsequent production contracts only through the Canadian subsidiary.

On completion of the study the various governments expressed dissatisfaction with the proposal and several months later abandoned the co-operative venture.

The $552,000 spent for development work in the United States contributed little to sustaining technological capability in Canadian industry.

108. *Area Development Account.* In paragraph 230 of this Report we refer to the liability item "Undisbursed balances of appropriations to special accounts". Forming part of this balance is an amount of $11 million credited to the Area Development Account pursuant to Department of Industry Vote 25c of 1967-68.

This appropriation was requested to provide the Department with additional commitment authority required in the spring of 1968 and with the additional spending authority which it expected would be required in 1968-69.

Vote 25c provided the required authorities but the manner in which the additional spending authority was requested of Parliament is questionable because, contrary to section 25 of the Financial Administration Act, it resulted in an appropriation of $11 million in the 1967-68 fiscal year which was not required in that year as there was an unspent balance of some $34 million of the amount appropriated by section 5(1) of the Area Development Incentives Act, *1965, c.12.*

Furthermore, the balance in the Area Development Account is misleading in that t is not the total amount available for the purposes of the Act, which at March 31, 1968 was in fact $45 million and not $11 million as shown in the Account.

109. *Failure to collect moneys due the Crown.* Under its program to sustain technological capability in Canadian industry by supporting selected defence development projects, the Department of Industry entered into an agreement with a company in March 1965 to share in the cost of a project for the development of three range and direction finders. With the approval of the Treasury Board, the Crown was to contribute up to $3,945,000 and the company $585,000.

The agreement provided that proceeds from the sale of these models, excluding pares, manuals, etc., would be shared as follows:

First sale	— Company	100%
Second sale	— Crown	50%
	— Company	50%
Third sale	— Crown	100%

In late 1967 the Canadian Commercial Corporation, on behalf of the Crown, entered nto an agreement with the company to sell the three units the company was manuacturing. No provision was made in the agreement with the company for division f the payments as provided in the agreement between the Department and the comany. Accordingly in October 1967 the Corporation collected and remitted to the ompany $194,000 and $172,000 representing instalments of 75% of the selling prices f the first two units. In view of the agreement to share equally in the proceeds of e second sale, the company should not have been paid $86,000 (50% of $172,000) hich was due the Crown and which should have been turned over to the Department be held on deposit pending delivery of the equipment.

110. *Admiralty courts.* In our 1966 Report and again in our 1967 Report (paragraph 2) we referred to weaknesses that our annual examinations had disclosed in the admintrative arrangements for the Admiralty courts. Further examinations carried out during 967-68 at the courts in Charlottetown, Halifax, Quebec, Montreal, Toronto and Vanuver disclosed that action had not been taken on many of the criticisms contained in r two previous reports to the Department of Justice and that there had been little provement in these arrangements. We again advised the Department that:

(1) rules and regulations with respect to the handling of funds were not being observed in some courts;

(2) accounting records were inadequate in some cases; and

(3) specific and detailed instructions should be provided to the registrars on

(a) the records to be maintained,

(b) the type of bank accounts to be used,

(c) the disposition of interest earnings on funds deposited into courts, etc.

The need for administrative improvements was clearly demonstrated subsequent to our most recent examinations when, following a break-in at the Montreal registry office in May 1968, investigations by officers of the Comptroller of the Treasury and the R.C.M.P. disclosed a deficiency of $17,100 of which at least $16,000 had been embezzled by the registrar. A total of $10,500 has since been recovered. The fraud had been perpetrated over a period of two years by misappropriation of funds of the Court as they were received and by irregular withdrawals from trust funds. The amount of the embezzlement was established after securing access to the personally controlled bank accounts of the registrar and by an extensive examination of case files of the Court.

In reporting to the Department on this Court after our examinations in 1965-66 and 1966-67 we had pointed out that:

(1) inadequate accounting records made it impossible to verify transactions;

(2) certain payments out of court were neither supported nor explained;

(3) trust funds were held in personal bank accounts of the registrar;

(4) rules of the court were not being observed;

(5) fees of office to which he was not entitled were being retained by the registrar; and

(6) petty cash funds were not segregated from personal funds.

In October 1968 the rules of the Exchequer Court and the Exchequer Court in Admiralty were changed to provide for the appointment of an administrator who will devote full time to the administrative side of the courts. We have been informed that consideration is being given to having funds of the courts deposited to the credit of the Consolidated Revenue Fund in future instead of keeping them in individual bank accounts.

111. *Existence of annuitants.* In our 1966 Report we stated that the Government Annuities Branch, in response to observations we had made on the possibility of payments being continued after annuitants were deceased, proposed to obtain confirmation of the existence of some one-third of the persons to whom annuities were being paid directly. On the basis of the results obtained from this comprehensive test, the Branch was to determine whether there is practical value in obtaining periodic life certificates from annuitants.

Last year we reported (paragraph 83) that the Branch had mailed certificates to 28,000 annuitants and that, although the final results of the test were not available the overpayments disclosed totalling $11,700, of which $8,100 had been recovered

confirmed to us that a periodic confirmation of the existence of annuitants is essential. A further overpayment of $7,500 has been disclosed in the investigation of discrepancies arising from the initial test, all of which has been recovered, and the Annuities Branch has undertaken to obtain life certificates from the remaining two-thirds of the annuitants, although pressure of other work made it necessary to defer this assignment for a time.

No further confirmations were obtained during the year but assurances have since been given that the survey of the annuitants not yet canvassed will be commenced in 1968-69.

112. *Municipal winter works incentive program.* Incentive payments from the inception of the first municipal winter works program in 1958 have amounted to $246 million.

Our 1967 Report (paragraph 85) contained a review of comments made in Reports of previous years on this program under which Canada, by agreement with all of the provinces and the territories, has undertaken to pay a percentage of direct labour costs incurred on site on accepted winter works projects undertaken by municipalities, Indian bands and unorganized settlements. In these Reports we stated that our test examination of claims against the Federal Government indicated that the effectiveness of the program in providing benefits to those whom it was designed to assist was somewhat less than its potential and that there was need for a more specific spelling-out of the terms of the agreements to set straight some questionable practices which had developed. We also reported that, with one exception in which no audits at the municipal level were being carried out, satisfactory examinations of expenditures were being made by or on behalf of the provincial auditors.

The Public Accounts Committee in its Thirteenth Report 1966-67 expressed concern with the practices which had developed and stated that there should be a closer liaison between the administering department and the auditors examining the winter works expenditures for the provinces. It also requested the Auditor General "to continue to watch the situation closely and advise the House thereon in due course" (see Appendix 1, item 49).

The terms and conditions of the agreements for the 1966-67 program year incorporated changes designed to prevent any possible misunderstanding of the intent of the program and to curb the abuses which had developed. Because of the time lapse which occurs between completion of projects by the municipalities and submission of final claims by the province, the bulk of the reimbursement to the province is made in the fiscal year following that in which the costs are incurred by the municipalities. Accordingly, our examination of claims and records in any fiscal year pertains to winter works carried out in the preceding year. The examinations in 1967-68, therefore, presented the first opportunity to assess the extent to which the practices referred to in previous Reports had been curbed as a result of the revisions to the agreements in 1966-67. These

showed that a substantial curtailment in the number of irregularities and abuses was achieved. Nevertheless, some of the same abuses continued to be encountered:

1. Municipalities in one province in some instances contrived to have the wages of those employed on such winter works projects as curling rinks, skating rinks and other recreational facilities rebated to them by permitting special clubs or committees to be set up to undertake the construction of these projects, with these clubs or committees in turn obtaining refunds of wages paid to their employees and transmitting them as 'donations' to municipalities, although the agreement is specific that "direct payroll costs" shall include only the actual, out-of-pocket outlays of municipalities for work performed on site.
2. Some municipal employees whose history of full-time employment with the municipality extended over a period of years were employed on winter works projects on the strength of a certificate that in the absence of the project they would have been unemployed, although the agreement states that payments to regular and year-round employees of the municipalities may not be included as claimable costs.
3. Overtime was sometimes worked under circumstances other than where immediate action was required to save a situation not foreseen, contrary to a term of the agreement.
4. Appropriate certification of a municipality or contractor, to establish the eligibility of workers for whom referral notices of the Manpower Division had not been obtained, was not always provided, as required.
5. 'Makework' projects of little value were not uncommon in some areas.

On August 30, 1968 the Prime Minister announced that the Federal Government would not provide incentives for municipal works in the winter of 1968-69.

113. *Adult occupational training program.* Under the authority provided by the Technical and Vocational Training Assistance Act, *1960-61, c.6,* Canada entered into agreements with the various provinces whereby contributions were made towards the costs to the provinces of providing technical and vocational training, including allowances paid to persons undergoing training. These agreements expired on March 31, 1967, at which time it was expected that new legislation pertaining to the occupational training of adults and the direct payment by the Federal Government of allowances to trainees would be in effect. However, consideration of the proposed legislation was delayed when the debate on the Canadian Forces Reorganization was extended and the Adult Occupational Training Act, *1966-67, c.94,* was not passed by the House until April 26, 1967. It was assented to on May 8, 1967.

In order to get the new program under way, including the payment of allowances, the Governor in Council approved regulations covering the adult occupational training program on March 30, 1967, to be effective April 1, 1967. The Order in Council states that the regulations are made

> pursuant to any enactment of the Parliament of Canada for defraying the several charges and expenses of the public service from and after the 1st day of April 1967 that provides for payment to or in respect of persons who are being afforded occupational training under the Adult Occupational Training Program, . . .

In the absence of specific legislation covering the program, the regulations were broadened to include many of the provisions which were later included in the Adult Occupational Training Act. The authority relied on was Appropriation Act No. 3, 1967, *1966-67, c.86*, which included interim supply of one-twelfth of Vote 5 for the Department of Manpower and Immigration providing funds for payments in respect of persons who are being afforded occupational training under the adult occupational training program in accordance with regulations approved by the Governor in Council.

The effect of these procedures is to initiate and define a program of adult occupational training by means of regulations for which the underlying authority is the text of an Appropriation Act providing interim supply. It is generally considered that an Act granting interim supply is concerned exclusively with money needs in succeeding weeks and is not regarded as otherwise legislating.

114. *Ex gratia payment to a special assistant to a Minister.* Approximately six months after the resignation of a Minister, one of his special assistants advised that he had continued to report to his office in Quebec City but that he was not being paid. The special assistant's employment had automatically ceased on resignation of the Minister on December 17, 1965, in accordance with the provisions of the Civil Service Act, *1960-61, c.57,* which was then in effect. Normally the amount of *ex gratia* payment to a member of a ministerial staff separated from employment under these circumstances is a month's pay to compensate for leave not taken, overtime, etc., but, because the employee continued to report regularly for work and carried out the duties which had been assigned to him by the former Minister, he was paid an amount of $2,876 for the period from December 17, 1965 to March 31, 1966.

115. *Joint auditing arrangements with respect to provincial corporations financed from federal funds.* Reference was made in paragraph 86 of last year's Report to steps that were being taken to appoint the Auditor General of Canada joint auditor with various public accounting firms of provincial corporations formed to facilitate and promote research into the utilization and development of manpower resources. Costs of these corporations, which were incorporated under provincial legislation, are borne by Canada. At the year-end, corporations had been established in Prince Edward Island, Nova Scotia, Saskatchewan and Alberta.

In accordance with the joint auditing arrangements which were established during the year, the accounts and financial statements of each of the corporations for the period ended December 31, 1967 were examined and reported upon to the Minister of Manpower and Immigration. By agreement with the individual public accounting firms the detailed examination of the accounts was made by their staffs, with the Auditor General satisfying himself as to the adequacy and scope of the auditing program, reviewing the results of the examination with the joint auditor and participating in the preparation of and the reporting on the financial statements at the close of the year.

Under the terms of the agreements with the provinces, Canada made available, from Department of Manpower and Immigration Vote 25, initial grants totalling $340,000

to enable each of the provincial corporations to prepare a plan of operations, including an analysis of the economic and population situation in the area under study, and a budget for the first year of operations. The corporations spent from the grants, in the period from the dates of incorporation to December 31, 1967, $177,000 for operating costs, comprising mainly organization expenses, salaries and fees to consultants, and $109,000 for the purchase of buildings, automotive equipment and office furniture and equipment.

After January 1, 1968 additional funds in the amount of $3,050,000 were made available to the corporations from Vote 25 to meet their budgeted expenditures. The schedule below shows the dates of incorporation and the funds that were made available for each of these corporations to March 31, 1968:

Corporation	Date of incorporation	Funds made available
Alberta NewStart Inc.	August 9, 1967	$ 1,050,000
Nova Scotia NewStart Inc.	June 29, 1967	900,000
Prince Edward Island NewStart Inc.	August 23, 1967	900,000
Saskatchewan NewStart Inc.	August 10, 1967	540,000
		$ 3,390,000

116. *National Capital Commission contracts.* In an examination of payments under contracts entered into by the National Capital Commission for works in the National Capital area, the following instances were noted where, for various reasons, mostly beyond the control of the National Capital Commission, additional payments were made which brought no benefit to the Crown:

1. CONSTRUCTION OF A SEWER BETWEEN CARLING AVENUE AND THE OTTAWA RIVER. When the City of Ottawa objected to the lowest tender price of $1,104,000, which was $339,000 higher than was originally estimated for this shared-cost sewer, forming part of the railway relocation project, award of the contract was delayed some three months until agreement with the City on a new cost-sharing formula was reached. The low bidder then refused to enter into a contract unless he was reimbursed for additional costs arising from winter conditions and escalating construction costs. New tenders were called, the lowest tender of $1,289,000 being accepted. The cost of the delay was $185,000, which was borne by the Commission because of the refusal by the City to pay more than the amount which had been negotiated as its share of the cost under the original tender.

2. CONSTRUCTION OF OVERHEAD RAIL STRUCTURES. The City of Ottawa, despite a written agreement with respect to sharing costs of these structures, withheld approval of a contract pending receipt of a feasibility study on the elimination of the Beachburg railway line. The consequent delay in the award of the contract for $1,493,000 resulted in additional costs to the Commission of approximately $98,000 for winter construction.

3. OTTAWA RIVER PARKWAY BRIDGES. A submission was made to the Treasury Board on August 25, 1966 for approval of a contract in the amount of $742,000 for the construction of these bridges, for which tenders had been received on July 26, 1966. The Treasury

Board considered the proposal on September 26, 1966 but as the Commission had over-expended its capital budget the Board referred the matter to Cabinet before approving the contract.

As the contract was not awarded within the 60 days specified in tender documents, the low tenderer was not bound to enter into a contract for his tendered amount. In order to complete the Ottawa River Parkway in time for Centennial Year new tenders were not sought. Instead, negotiations were entered into with the low tenderer which resulted in the payment of an additional $92,000 to compensate him for carrying out the work during the winter months.

4. REPLACEMENT OF CIRCUIT BREAKERS. Shortly after the installation of circuit breakers in electrical pits below the surface of the passenger walkways at the new Ottawa railway station, they were damaged as the result of faulty drainage in the pits. The circuit breakers were relocated above ground at a cost to the Commission in excess of $50,000.

5. DEPOT BUILDING. A contract was awarded for the construction of a depot building at a cost of $35,900. The project was later abandoned when the soil at the proposed site, which had not been tested, proved unstable. The contractor was reimbursed his out-of-pocket expenses of $12,800, mainly for underground services, and the architect was paid $1,800.

117. *Penalties for late payment included in grants in lieu of taxes.* The National Capital Commission is an agent of the Crown and property held by it is Crown property with respect to which the Commission is empowered by the National Capital Act, *1958, c.37,* to pay grants to local municipalities not exceeding the taxes that might be levied by the municipalities on real property if that property was not Crown property.

It is a policy of the Commission, when a grant in lieu of taxes is paid after the date on which unpaid taxes levied by the municipality become subject to penalty, to increase the grant by an amount equivalent to such penalty. Under this policy, penalties amounting to $4,700 were paid to municipalities during the year.

In our opinion the taxes that might be levied by a municipality can only be calculated by applying the effective rate of the real estate tax levied in the municipality in the year to the accepted value of the Crown property and, as the Commission is not empowered to pay grants exceeding taxes that might be levied, it lacked authority to pay these penalties for late payment of the grants.

118. *Award to an employee released during the probationary period.* Following a hearing under the grievance procedure provided by Part IV of the Public Service Staff Relations Act, *1966-67, c.72,* an employee of the National Capital Commission was awarded six months' pay, $5,100, by the adjudicator "to vindicate the wrongful termination of his permanent status as a public servant". The employee had been released during his probationary period.

Before employment by the Commission, the employee had worked for eight years in various government departments. The Public Service Employment Act, *1966-67, c.71,* provides that, where an employee who has been appointed from within the Public Service is rejected for cause during the probationary period, he will be placed by the Public Service Commission on an eligible list. Although the adjudicator agreed that the employee

had been rejected for cause, he ruled that he "ought not to have been discharged, but rather ought to have been offered employment within the N.C.C. at his former level, or placed on an eligible list for such employment", and he ordered that the employee be compensated in an amount equal to six months' pay because the National Capital Commission is not subject to the Public Service Employment Act and does not maintain eligible lists such as are referred to in that Act.

119. *Travel by private motor car.* In previous Reports (paragraph 87 in 1967) we have noted that as no receipts are required to support reimbursement of travel claims submitted by service members who use private motor cars for their own convenience on temporary duty trips, special leave, etc., and who are allowed to claim their expenses on the basis of all-inclusive mileage rates which cover transportation, meals and accommodation, there was no direct evidence that the trips had been made in the manner claimed. Therefore, we had suggested that the Department of National Defence require the claims to be supported by a special certificate of an officer who has knowledge that the trip was actually undertaken as claimed. We also noted that the Department had declined to accept the suggestion and consequently that we could not establish that all claims of this type were *bona fide*.

In the course of our examination of travel claims during 1967-68 we continued to experience difficulties in establishing to our satisfaction that all trips involving the use of private motor cars were made in the manner claimed.

120. *Fraudulent travel expense claims submitted by personnel of the Canadian Forces.* Regulations of the Department of National Defence entitle an officer or man when on duty away from his base or unit for a period of 24 hours or more to claim his actual and reasonable expenses incurred for lodgings. Service orders limit the maximum per diem amount payable in Canada to $12.50 for officers and $9.50 for men, and require that the actual costs incurred, in excess of $2.50 a day, be substantiated by receipts. In addition, meal expenses are reimbursed at a daily rate of $6.

Reimbursement of lodgings and meal expenses in accordance with these regulations and orders was made to 48 members of an element of a Canadian Forces unit on temporary duty in Ottawa during the period April to October 1967. In the course of Service internal checking procedures, the validity of receipts for lodgings which supported payment came under suspicion and, after an investigation of their travel claims by the Department, 42 were found to be fraudulent.

The loss to the Crown was established at $15,200. Of this amount $14,800 was recovered from the service members concerned and steps are being taken to recover the balance of $400 from a released member. In addition to being required to repay the amounts wrongfully claimed, all were reprimanded and some were also fined from $10 to $25.

In another instance an investigation by Service authorities revealed that 12 out of 15 members of an Armed Forces group had submitted fraudulent travel claims supported by false receipts for lodgings and for laundry and dry cleaning expenses. Sub-

sequently the amounts wrongfully claimed, totalling approximately $875, were either deducted from the travel claims which had been withheld from payment during the investigation, or repaid by those members already reimbursed. The disciplinary action taken was to impose a fine of $50 on one member and fines of from $10 to $25 on ten others. One case is still pending.

121. *Use of departmental vehicles.* The situation commented on in our 1967 Report (paragraph 88) regarding the use of Department of National Defence vehicles remains unchanged.

The use of vehicles for the purposes of dependants' recreation and shopping, contrary to Treasury Board policy, continues to be permitted under departmental administrative orders. The special study of the use of staff cars and chauffeurs by senior officers, which was begun in 1966, has not yet been completed. Cars and chauffeurs continue to be assigned to senior military officers for their use, including transportation between office and residence. However, pending clarification of departmental policy on the use of staff cars, the Treasury Board recently withheld approval for further procurement of such vehicles.

122. *Pension awards effective at an early age.* In previous Reports (paragraph 92 in 1967) we have commented upon the number of servicemen being retired with immediate annuities at an early age, in some instances under 30. Although the amounts of these annuities are not large due to the short periods of service, the potential cost is substantial because of the relatively longer life expectancy. During the year an additional 419 servicemen aged 40 and under were released with immediate annuities aggregating $332,000, ranging in amounts from $187 to $2,926. This brings to 1,407 the total number of servicemen aged 40 and under released during the past three years, with immediate annuities totalling $2,016,000.

During this time the Department of National Defence has considered the advisability of introducing deferred pensions similar to those available to civilian employees and we reported last year that it had completed a review of the Canadian Forces Superannuation Act, *1959, c.21,* and submitted its proposals to a committee of the Cabinet.

We understand that the Cabinet's final consideration of the departmental proposals has been deferred until certain financial questions have been resolved (see Appendix 1, item 15).

123. *Subsidization of non-public fund activities by the Crown.* Messes, recreational facilities and sales outlets are among the facilities operated for the benefit of the Armed Forces that involve both public and non-public funds. Generally speaking, messes and recreational facilities involve non-public funds only to the extent that they are equipped or constructed beyond authorized scales or staffed in excess of established positions, whereas sales outlets are usually regarded as wholly non-public fund activities. However, there has never been specific authority governing the extent of public subsidization of these facilities.

Subsidization includes the provision without charge of accommodation and utilities, Armed Forces equipment such as vehicles, civilian and military personnel, and accounting and other services. The full extent of this subsidization, however, cannot be determined as the Department of National Defence has never attempted to segregate all relevant costs. The following table based on a 1966 survey by the Department gives an indication of the cost of subsidization in the form of manpower, amounting to over $7 million annually:

	Manpower costs borne by	
	Public funds	Non-public funds
Officers' and sergeants' messes, excluding normal food service operations	$ 2,703,000	$ 1,202,000
Merchandising (central warehouses and dry canteens)	1,716,000	3,135,000
Wet canteens, golf and curling clubs	722,000	1,100,000
Accounting support	1,940,000	225,000
Administration	32,000	477,000
	$ 7,113,000	$ 6,139,000

Prior to the integration of the Forces, non-public fund activities were operated differently in each of the three Services. However, the responsibility for administering a common system of non-public fund operations in the Canadian Forces was recently assigned to a new departmental directorate known as "Personnel Support Programs". The actual costs borne by the Crown in respect of non-public activities are not known. It is essential that, as a prerequisite to the establishment of adequate management control, such costs be determined and a policy established to govern the extent to which non-public fund activities may be subsidized. The Department has advised us that a policy review is under active consideration.

124. *Assistance to provinces by the Armed Forces in civil emergencies.* In its Sixth Report 1964-65, presented to the House on October 20, 1964, the Public Accounts Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies. As the Department had not been successful in collecting these accounts they had been referred to the Executive for direction (see Appendix 1, item 14).

No direction has yet been received and in the meantime the Department has expended a further $20,000 in 1965 and $215,000 in 1967 in assisting two provinces at their request, formal agreements having been obtained to reimburse the Government for all expenses to be incurred. Notwithstanding these agreements, Canada has not been reimbursed.

During 1967 a cost of $80,000 was incurred by the Department of Transport in providing similar assistance to one of the provinces. This amount also remains unpaid.

The amounts owing to the Departments of National Defence and Transport by four provinces are $705,000, $77,000, $43,000 and $20,000.

In our opinion the appropriations of the Departments of National Defence and Transport do not provide scope for the absorption of charges relating to assistance to provincial governments in civil emergencies and, to the above extent, these appropriations have been applied to a purpose or in a manner not authorized by Parliament.

125. *Excessive payments to municipal school board.* In previous Reports (paragraph 107 in 1967) we have referred to excessive payments estimated at $191,000 made during the years 1957 to 1965 by the Department of National Defence to a municipal school board under an agreement to provide schooling for dependent children of servicemen occupying married quarters at an RCAF station.

The amount of the overpayment has now been established at $171,000 and it has been agreed that one-tenth of the amount will be withheld from payments to the school board each year until full recovery is made. Recovery in May 1968 of $34,000 for 1966-67 and 1967-68 leaves a balance outstanding of $137,000.

126. *Inadequate control over Accountable Advances to aircraft repair and overhaul contractors for purchase of spare parts.* The policy of the Department of National Defence over the years has been to contract with industrial concerns, through the Department of Defence Production, for the major overhaul, modification, etc., of equipment and to restrict its "in house" repairs to field maintenance work. The contractors were originally expected to maintain an adequate inventory of spare parts in order to provide the required service.

During the Korean War the contractors found it difficult to finance the required stock of spare parts and moreover, due to profit limitations, they were reluctant to employ their own funds in procuring high risk items. Accordingly, the Department agreed to assist them in financing their expanding spare parts inventories by means of Accountable Advances. From the outset there was confusion as to the ownership of the inventories financed in this manner.

Accountable Advances were intended to be made available to a contractor only when it could be demonstrated that without such financial assistance he would have to assume an abnormal financial burden and risk in the acquisition of spare parts not stocked or procured by the Department of National Defence. The use of such funds was to be limited to the procurement of those items meeting all of the following conditions: (1) high value, (2) long lead time, (3) peculiar to Department of National Defence programs, and (4) not stocked by the Department.

At March 31, 1965 the value of Accountable Advance inventories was in the order of $32 million, excluding electronic spares which we understand totalled between $1 million and $2 million. In June 1968 Department of Defence Production officials estimated the value of all such inventories at that time to be $26.7 million, of which items valued at approximately $5 million were considered surplus to requirements. When such surpluses are sold, usually only 1% of the cost is realized.

The regulations regarding the purchase and management of Accountable Advance spare parts are contained in defence contracts and in a specification which forms an

integral part of these contracts. Although policy and the concepts upon which Accountable Advances were founded have remained basically unchanged over the years, there have been a number of instances in which the contractors have departed therefrom.

We conducted an examination in the Departments of National Defence and Defence Production of procedures and departmental audit reports relating to Accountable Advance inventories and reported to the Department of National Defence in September 1967. Our findings are summarized as follows:

1. Parts had been withdrawn from Accountable Advance inventories for commercial purposes without obtaining the necessary authority from the Department of Defence Production.
2. Parts had been purchased unnecessarily when the identical items were already in the hands of the contractor as "free issue" stores, or could be obtained on that basis from Materiel Command inventories of regular maintenance spares.
3. Some contractors had submitted inaccurate annual reports or had failed to report "free issue" items held in the Accountable Advance inventory. Since these reports form part of the information required by the Department of National Defence in planning the yearly reprovisioning of spares, the absence of reliable data results in the procurement of additional spares when the same items are in surplus supply in the contractors' stores.
4. Inadequate inventory control procedures employed by some contractors and differences between requirements forecast by the Department of National Defence and actual requirements had resulted in the accumulation of slow-moving or inactive items.
5. Some contractors followed the practice, not provided for in the regulations, of pooling the Crown's and contractor's funds in the operation of a common repair and spare parts inventory serving both military and commercial contracts, with the Crown advancing the contractor a portion of the cost of his purchases of stores on a *pro rata* basis relative to the ratio of military to commercial business. This practice has the advantage of restricting the Crown's losses on disposal of surplus parts to a proportional amount based on the ratio of the company's military to commercial business.
6. Low value items, which the contractor could reasonably be expected to finance from his own resources, were sometimes financed with Accountable Advance funds.
7. Parts manufactured for the Crown by one major contractor and held by him for issue to other repair and overhaul contractors are not under financial control by either the Department of National Defence or the contractor and therefore it was virtually impossible to verify the value of stores on hand.
8. Accountable Advance inventories at contractors' plants had not been verified by the Crown on a regular basis.
9. Failure of the Crown to establish overall policies and provide explicit instructions had contributed to the undesirable manner in which some defence contractors were administering Accountable Advance funds.

From the foregoing it is apparent that the specification included in contracts for the purchase and management of Accountable Advance spares should be revised, the ownership of such spares should be clarified, and the responsibilities of the Department of National Defence, the Department of Defence Production and the contractor should be clearly defined.

However, we have suggested that consideration first be given to whether the present type of financial assistance is the best means of minimizing the overall cost of major repair and overhaul work in view of (a) the difficulty of maintaining adequate controls, (b) the greater stability in present-day military programs in comparison with the conditions existing during the Korean War, and (c) the difficulties caused by the fact that both the Department of National Defence and the Department of Defence Production are involved.

The Departments have been aware of the situation for many years and have been attempting to find a solution. On receipt of our report, the Department of National Defence instituted a joint study with the Department of Defence Production which led to the organization of a monitoring committee and a working group comprising senior representatives from the two Departments. The Department advises that all aspects of Accountable Advance inventories are now being studied with a view to making the present system more effective as a short-term goal, and to recommending alternative methods as part of a long-range solution.

127. *Hydrofoil development program.* In last year's Report (paragraph 97) attention was drawn to the cost of the hydrofoil development program. This program is for the development of an anti-submarine-warfare hydrofoil craft of some 200 tons capable of operating at high speeds in the open ocean.

Approval was given for an engineering and feasibility study on the understanding that the Naval Research Establishment design was not being duplicated in the United States Navy program and that the United States Navy would provide continuous technical assistance and advice during the study.

In May 1963, after two years of engineering studies and model tests, a contract was awarded for the design and construction of a development prototype hydrofoil at an estimated cost of $9.1 million excluding the cost of sea trials and spares. At that time delivery was scheduled for April 1966. As the project progressed the estimate of final cost approved by the Treasury Board was revised as follows:

	Estimate of final cost		
Date of estimate	Hydrofoil	Fighting equipment	Total
April 1963	$ 9,100,000	$ —	$ 9,100,000
February 1964	11,326,000	—	11,326,000
March 1964	16,300,000	—	16,300,000
June 1964	16,300,000	4,355,000	20,655,000
November 1964	21,775,000	4,355,000	26,130,000
June 1965	28,759,000	7,441,000	36,200,000
April 1966	35,992,000	7,930,000	43,922,000
March 1967	39,874,000	10,132,000	50,006,000
January 1968	40,573,000	9,433,000	50,006,000

In order to stay within the estimate of $50,006,000, the Department decided to delay the installation of the fighting equipment and apply some of the funds allocated for this

purpose to completing the basic ship construction and doing as much trial work as funds would permit. Consequently, additional funds will be required in future years for the installation of fighting equipment.

In summary, the explanations given for the overall cost increase since April 1963 are:

(1) inexperience of the contractor in this new field which gave rise to underestimates of detailed design and production engineering requirements;

(2) underestimates of sub-contract costs by both the contractor and the Department of Defence Production;

(3) underestimates of the volume of manufacturing work, increased requirements due to engineering refinements, delays in production, increased shipping and material costs etc.; and

(4) fire damage, consequent design changes and increased inspection and administration.

By September 1968, $45.5 million had been expended on the program, an increase of $6.8 million during the preceding twelve months. These costs do not include the cost of Service labour, materials supplied from stores, Service equipment utilized, and departmental supervision directly associated with the work although the principle of including such costs, recommended by the Public Accounts Committee, was accepted by the Department of National Defence in 1961.

The ship which is now berthed at Halifax was commissioned in July 1968 as the "Bras d'Or". It is expected to be completed in late 1968, with the foil-borne trials beginning early in 1969.

128. *Restigouche Class destroyer conversion program.* In November 1964 the Department of National Defence proposed this program for the conversion of seven destroyer escorts at an estimated cost of $56 million.

In February 1965 the Department of Defence Production began awarding contracts for the procurement of equipment and materials which would be supplied by the Government to the shipyards undertaking the conversions. Later in that year the prototype conversion was undertaken in HMC Dockyard Halifax. Concurrently the Naval Central Drawing Office proceeded with the preparation of working drawings and material projections suitable for the subsequent invitation of tenders from shipyards.

In March 1967 the Department of National Defence revised its estimate of the cost of this program to $67 million as a result of the prototype experience and to allow for increases in shipyard costs since 1965. Treasury Board approval of the revised estimate was delayed pending its confirmation in November 1967 by tender competition for the second conversion. The tenders received indicated a further increase to $69 million. No contract was awarded because in December 1967 the Department of National Defence decided that further conversions would be deferred for an indefinite period as a result of budget restraints. However, it was decided to continue to acquire the material necessary for the conversions which, together with costs of the Naval Central Drawing Office involved expenditure of $7 million to March 31, 1968.

In March 1968 the Department of National Defence decided to convert only four of the seven ships and in addition to begin the next conversion in August 1969, provided the necessary approval is forthcoming from the Treasury Board.

Where practical, the contracts for government-supplied material were reduced to provide for the requirements of only four ships. We understand that most of the equipment already acquired for the three ships which are not now to be converted will be held as additional spares for equipment on the four ships to be converted and on other destroyer escorts.

129. *Escalating costs of navigation and flight control equipment.* In November 1964 the Treasury Board approved a proposal by the Department of National Defence to procure 14 different types of aircraft navigation modules to improve the navigation and flight control systems in 76 aircraft of four different types at an estimated cost of $9.7 million. It was understandably difficult to make a close estimate of the total cost of this program because, of the 14 different modules to be purchased, five estimated to cost $2.2 million were only in the development stage. A sixth estimated to cost $2.4 million has subsequently required substantial further development.

As the program proceeded, the cost and time required to complete it increased significantly with the result that the Department progressively reduced the number of aircraft to be fitted. One type of aircraft, for which 25 sets of modules were required, was deleted from the program because it appeared that this aircraft would be withdrawn from service before the new equipment was available.

The extent of cost escalation and delay is shown in the following table:

Treasury Board submission	Aircraft Types	Aircraft Number	Completion expected	Estimated cost
November 1964	4	76	1966–67	$ 9,700,000
January 1967	3	61	1968–69	14,500,000
November 1967	1	32	1970–71	16,500,000

The 32 installations comprising the current program are for one type of aircraft which in the original submission accounted for 33 installations and $6.1 million of the $9.7 million originally estimated cost of the program.

In explaining the cost increases the Department gave the following reasons:

(a) a general price escalation throughout the industry,

(b) the original estimate of spares required was low,

(c) an increase in installation costs because installation would have to be done by a contractor rather than by Service personnel as originally planned, and

(d) system integration and development was more extensive and took much longer than originally anticipated. The original estimate was prepared before the full impact of the development required was appreciated and hence was understated.

The major increase was in the cost of the modules which were in the development stage. The cost of the five types of modules originally estimated at $2.2 million for 373 units increased to $5 million for 255 units, while the cost of the sixth rose from $2.4 million for 70 units to $3.9 million for 46 units.

We are not yet able to establish the final cost of this program or the portion that may be considered non-productive in nature because the final costs of the contracts have not yet been established and the extent to which modules and parts originally destined for installation in aircraft may be useful as spares has not been determined.

130. *Reconstruction of aircraft parking apron.* In August 1962, Defence Construction (1951) Limited awarded a contract for the construction of runways, taxiways and asphalt overlay of a hangar apron at Canadian Forces Base Moose Jaw in Saskatchewan. This work was completed in November 1963 at a cost of $3,679,000.

Prior to the completion date, depressions caused by the wheels of parked aircraft appeared in the asphalt overlay of the hangar apron. Since the contractor had applied the overlay in accordance with the specifications, he was not held responsible.

By the summer of 1964 it was evident that a strip adjacent to the hangars had to be replaced to allow the hangars to be used. A contract was awarded in the autumn of 1964 for the replacement of a strip 50 by 1,500 feet which was completed in November 1964 at a cost of $53,000.

An engineering consultant was then employed to determine the underlying cause of the depressions. His initial report indicated that the base over which the asphalt had been laid was not stable enough to carry the load of parked aircraft and that the overlay itself had not failed. In early 1965, after conducting aircraft wheel load tests under maximum summer temperature conditions, the consultant reported that the asphalt overlay could not support the weight and that consideration should be given to another type of surface.

As a result of his findings, the Department of National Defence decided to replace the entire apron using concrete. A contract for this work was awarded in August 1965 and completed in July 1966. The settlement of a claim for additional work in the amount of $20,000 in July 1967 brought the total cost of the contract to $969,000.

As the apron received an asphalt overlay in 1962-63, was partially reconstructed in 1964 and was entirely replaced in 1965, the expenditure of $53,000 in 1964 may be regarded as non-productive.

131. *Increased costs caused by the supply of faulty equipment.* In 1962 contracts were entered into totalling $1,011,000 for the construction of two barges for de-magnetizing ships' hulls, one on the east coast and one on the west coast where the barges were to be used. The contracts were completed in 1967 at a cost of $1,111,000.

Under the terms of the contracts the Department of National Defence was to supply diesel-driven generators for installation in the barges, and they were to have been checked and test-operated before shipment to the contractors. The ones shipped to Halifax were not checked nor were they adequately packed for shipment, so they arrived in a faulty condition. Remedial action to render them acceptable, which took over three months,

disrupted the contractor's building schedule and resulted in a claim in the amount of $50,600 as compensation for additional costs. This amount is included in the final contract cost and may be regarded as non-productive.

132. *Cost of constructing a water treatment plant.* In May 1958 the Department of National Defence engaged a firm of consultants to carry out investigation work in connection with the development of a source of water and the design of a water treatment plant at Canadian Forces Base Gagetown in New Brunswick. In July 1959 the firm submitted its report and was requested to prepare plans and specifications for tendering purposes. As the lowest tender received was in the amount of $1,125,000, approximately $275,000 in excess of the estimated cost, the consultants were instructed to modify the plans in order to reduce the cost, the modifications to include provision of only one water intake pipe of less than 300 feet instead of one 950-foot intake and a 300-foot emergency standby pipe as proposed in the original design.

A firm-price contract based on the amended plans was awarded to the lowest tenderer in August 1961 for $924,000 and in July 1963 the work was completed at a cost of $1,072,500 including extras. It was then discovered that water treated by the plant was unsatisfactory as the shortened intake pipe was drawing in contaminated water, including sewage and petroleum waste from a nearby marina.

In March 1966, following tests of water samples by the Department of National Health and Welfare, that Department recommended the construction of a 950-foot intake pipe as initially proposed by the consultants.

In December 1966 the Treasury Board approved a contract for the construction of this pipe and in September 1967 work was completed at a cost of $225,000.

Had the Department of National Defence proceeded with the original design in 1960, it is estimated the cost would have been $1,218,000 or $79,500 less than the eventual cost of $1,297,500. Therefore, of the total cost, $79,500 may be regarded as non-productive.

133. *Ex gratia payment to a contractor.* In January 1966 Defence Construction (1951) Limited awarded a contract on the basis of firm unit prices and estimated quantities for apron reconstruction at Canadian Forces Base Chatham in New Brunswick. The contract was completed in October 1967 at a cost of $1,169,000.

During construction, a highway bridge, on the route over which the contractor was hauling the aggregate material necessary for the reconstruction work, was closed for a period of almost two months after a ship collided with it. During this period the contractor hauled the aggregate material over an alternate route involving an additional 14 miles per trip. He then requested reimbursement for the additional haulage costs. Under the terms of the contract there was no legal liability on the part of the Crown to pay these additional costs but it was considered that some compensation should be paid to the contractor. In accordance with a 1958 Treasury Board directive on extra payments to contractors when there is no Crown liability, Treasury Board approval was obtained for a contract amendment authorizing payment of $37,000 for the additional haulage costs.

Because there was no legal liability this payment was, in our opinion, *ex gratia*. However, as it was not identified as such, it has not been reported in the Public Accounts contrary to a recommendation of the Public Accounts Committee in its Second Report 1961, concurred in by the House of Commons on April 26, 1961.

134. *Additional cost due to delay in acceptance of tender, Saint John, N.B.* The National Harbours Board advertised for tenders for the extension of Pugsley Terminal Wharf at Saint John Harbour. The final date set for the receipt of tenders was June 8, 1967 and the lowest tender received was for $1,559,000. The Board had not obtained program approval in principle from the Treasury Board for this project, in accordance with established guidelines, before tenders were called and as a consequence considerable time was consumed in providing relevant information for a thorough consideration of the project by the Treasury Board. Approval was not obtained until August 9, 1967, two days beyond the 60-day period during which a tenderer is bound to enter into a contract if his offer is accepted. When the tenderer was asked if he would be prepared to enter into a contract at the price of $1,559,000, he stated that it would be necessary to increase his price by $131,000, bringing the total contract price to $1,690,000. He explained that due to the delay in awarding the contract much of the work would have to be done in 1968 and as a consequence increased costs of dredging, rentals, material and labour could be expected. With the price increase the tender was still the lowest so the Treasury Board approved the contract in the amount of $1,690,000 on October 12, 1967.

Failure to accept the original tender within the 60-day period therefore resulted in an additional and non-productive cost of $131,000.

135. *Failure to obtain a guarantee of satisfactory performance.* Early in 1966 the National Harbours Board's consulting engineers entered into negotiations for the supply and installation of a jet-stream pneumatic spout unit for grain loading at Vancouver Harbour. The purpose of the unit was to overcome the difficulties that had been encountered in spouting grain into the much larger and wider grain ships that are now in operation. Subsequently the Governor in Council authorized expenditure to a total estimated amount of $28,600.

The Board's purchase order did not require a guarantee of satisfactory performance. Following considerable delay the unit was put into operation on a trial basis on June 5, 1967 but after six hours operation, with considerable leakage of grain, a section of the unit collapsed. The unit was removed and with further modifications successfully passed both safety and certain performance tests but the manufacturer was unable to prevent leakage and blow-back of grain. Nevertheless, in August 1967 he demanded payment and the Board on the advice of its solicitor paid the purchase price.

When further modifications failed to achieve the desired results the lessee of the elevator requested that the jet-stream unit be removed. Total expenditures for the purchase, installation and modification of the unit were $38,000 while removal costs, in 1968, were $3,000. It is estimated that $5,000 may be obtained from the sale of the motor and other parts.

136. *Questionable use of Health Grant funds.* For the past eight years Canada has approved, as part of "General Public Health Grants to assist in extending and improving health services", grants towards the cost of consultants engaged by the Province of Quebec in connection with Hospital Insurance Service in that Province. In this time the number of consultants has increased from five in the first year to in excess of 60 in 1966-67. Forty-five of these are consultants in hospital accounting, of which 37 are classed as accounting and eight as auditing advisers. Canada pays 75% of the cost of the salaries and the full travel expenses of these consultants, the payments amounting to $278,000 in the year.

In paragraph 117 of our 1967 Report we referred to a situation in the same Province where Health Grant funds were being used to pay the costs of establishing an audit and financial services section in the provincial Department of Health. We questioned whether such costs, which are normal administration expenses, should be supported under a Health Grants program whose purpose is "to assist in extending and improving health services".

The same considerations apply in respect of the approval under the Health Grants program of 75% of the salaries and the travel expenses of the consultants in hospital accounting. Their number would indicate that their work is directed mainly towards accounting and auditing, a conclusion which is supported by their replacement by public accountants, at a cost of $28,700, during a strike of provincial employees.

When the matter was brought to the attention of officials of the Department of National Health and Welfare we were advised that these consultants had provided valued assistance in developing and maintaining good accounting practices in Quebec hospitals but that the duties and responsibilities of the accountants and auditors had changed since the project was first approved in 1960-61. At the next meeting with the Province it was proposed to discuss whether this form of assistance should be continued.

137. *Excessive grant to a hospital.* It has been the practice of the Department of National Health and Welfare to make a contribution, in addition to normal grants, towards the construction costs of hospitals located in communities where Indians represent a sizable part of the population to be served by the hospital. This is in recognition of the fact that Indians have such low incomes that they are unable to contribute towards the community's share of the cost of the hospital. The contribution is determined by the percentage of Indians living in the community.

In January 1965 a hospital in Saskatchewan which was planning extensive renovations and new construction sought financial assistance from the Department in the amount of $46,000 under the hospital construction grants program, indicating on the application that an additional $15,000 was anticipated as a contribution in respect of the Indian population in the community. Through a clerical error the hospital was advised in April 1965 that a construction grant of $109,000 had been approved, an amount which actually applied to a hospital in Alberta. When the error was disclosed one year later, the Department suggested that the contribution with respect to the Indian population might be increased from $20,000, which had been approved initially, to $40,000, based on the fact that construction costs had exceeded estimates. This, together with the construction grant of $46,000, would provide a federal contribution of $86,000.

This was not acceptable to the hospital which maintained that it had already arranged its financing based on the federal contribution of $109,000 which had been promised. With the approval of the Executive the additional amount of $23,000 was paid in 1967-68.

138. *Treatment of sick mariners.* Part V of the Canada Shipping Act, *R.S., c.29,* provides that a levy, based on registered tonnage, shall be collected on all ships arriving in ports on the east coast, extending inland to Montreal, on the west coast and on Hudson Bay or James Bay. The Act also provides for voluntary payment of the levy by fishing vessels registered in Canada. The payment of the levy in respect of a vessel establishes entitlement to free medical, surgical or other treatment for any sick mariner employed on board and belonging to the ship. Treatment is provided at clinics staffed by medical officers of the Department of National Health and Welfare, in designated hospitals, or by designated port physicians on a fee for service basis.

The expenditures made under the provisions of the Act are paid out of moneys appropriated annually by Parliament, while collections of the levy are classified as revenue and are credited to the Consolidated Revenue Fund. Prior to 1942 total levies collected were sufficient to offset costs but since then substantial annual deficits have been experienced. The bulk of these deficits are attributable to fishing and coastal vessels, some of which pay only the minimum levy of $2 per annum for which as many as seven crewmen are able to receive free medical services. There has been a steady rise in the cost of services, not matched by compensating adjustments in the rate of levy which has not changed since 1921. Expenditure in the year totalled $1,198,000 while the corresponding revenue was $732,000, leaving a deficit of $466,000 which does not include the estimated cost of $25,000 for administrative services provided by the head office unit.

The fact that the statutory levy does not yield sufficient revenue to defray the cost of providing services to sick mariners has been noted in earlier Reports. In 1962-63 the Royal Commission on Government Organization concluded from its findings that the services should be discontinued and recommended that Part V of the Canada Shipping Act be repealed. Departmental officials are currently considering amendments to Part V of the Act which would eliminate coverage provided to crew members of fishing and coastal vessels of Canadian registry. Almost all of the crew members of such vessels are Canadian residents and as such are covered for hospitalization under provincial hospital insurance plans supported by the Hospital Insurance and Diagnostic Services Act, *1957, c.28,* and in the future are expected to be covered for medical care under provincial medical care insurance plans supported by the Medical Care Act, *1966-67, c.64,* which came into effect on July 1, 1968. This would have the desirable effect of avoiding duplication of coverage as well as eliminating the source of most of the deficits. The Department feels that the provisions of Part V should continue to apply to foreign ships, whose crew members the legislation was originally designed to protect.

Although the amendments being considered by the Department would go a long way towards remedying the present situation, the inclusion in the Canada Shipping Act of

provision for adjusting the rate of levy whenever expenditure becomes substantially out of line with revenue merits consideration.

139. *Provincial payments to federal hospitals under the Hospital Insurance and Diagnostic Services Act.* Regulations approved by the Governor in Council under the provisions of the Hospital Insurance and Diagnostic Services Act, *1957, c.28*, stipulate that:

> The amounts payable by a province in respect of the cost of insured services provided by federal hospitals shall be determined on the basis of the amount that would have been paid by the province for such services to hospitals other than federal hospitals in that province that are comparable as regards size, facilities, standards of service and location.

The agreements that have been entered into with each of the provinces and the territories set out the manner in which the provinces will comply with the Regulations in the matter of reimbursing federal hospitals for the cost of providing insured services. Generally, federal hospitals are required to submit to the provincial hospital insurance authority the same returns and information, including budgets and audited financial statements, that are required from non-federal hospitals and they are also to be paid on the basis of approved audited costs. If a federal hospital is unable to provide the required returns it is to receive payments, usually expressed as a patient-day rate, calculated on the basis of the amounts paid to non-federal hospitals providing similar services. One province and the two territories pay at patient-day rates that have been negotiated between the hospital insurance authority and the appropriate federal authority.

Reference has been made in our Reports for the past four years (paragraph 116 in 1967) to our inability to determine whether the terms of the agreements with the various provinces under the Act, relating to payments to federal hospitals, were being observed in all cases. We stated that this stemmed in part from the fact that: accounting in many federal hospitals did not conform to the Canadian Hospital Accounting Manual which provides a basic accounting system for hospitals; accounting and medical records in some Indian hospitals were inadequate for the preparation of the financial returns required by the agreements with the provinces; and in some cases rates could not be determined by reference to comparable non-federal hospitals because of the specialized nature of many federal institutions.

The Public Accounts Committee was informed by the Deputy Minister of National Health in November 1966 that a financial management project team was studying the application of the Canadian Hospital Accounting Manual and that it was expected that their recommendations would be implemented in 1967 or 1968. The Committee asked the Auditor General, in its Fourteenth Report 1966-67, to follow up and report thereon to the House in due course.

Last year we reported that progress was being made by both the Department of National Health and Welfare and the Department of Veterans Affairs in the introduction of an accounting system based on the Canadian Hospital Accounting Manual. During 1967-68 the latter Department completed the introduction of the system into all of its hospitals. The situation with regard to hospitals of the Department of National Health

and Welfare at March 31, 1968 remained essentially unchanged from the previous year; ten hospitals were making use of the Manual while five were not. Of these five hospitals, one has since been closed, the closing of two is under consideration and the other two are very small.

The majority of federal hospitals should now be able to provide provincial hospital insurance plan authorities with all the information required to permit payment on the same basis as the non-federal hospitals and in accordance with the terms of the agreements.

140. *Hospital charges for Indians.* In the Province of Saskatchewan the Federal Government pays the provincial hospitalization tax for Indians residing on reserves, or who have been residing off reserves for less than 12 months, in order that they may be eligible for benefits provided by the provincial hospital insurance plan. Indians who have been residing off reserves for 12 months or more are liable under provincial legislation to pay the hospitalization tax. With few exceptions, therefore, Indians residing in the Province are covered by the hospital plan. During the year the total tax paid by Canada on behalf of Indians domiciled in the Province was $319,000.

In the Prince Albert area of the Province, Indians requiring medical treatment who are not considered emergency cases have frequently been accommodated in the Prince Albert Nursing Home rather than in either of the two local hospitals. Among the reasons given for this is the shortage of hospital beds. However, as the Province does not recognize this Home as a hospital for purposes of the Saskatchewan Hospital Insurance Plan, the cost of the accommodation is borne by the Department of National Health and Welfare which paid the Home $63,000 during the year for Indian patients requiring nursing care.

In view of the fact that these Indian patients are eligible in most cases for treatment in public hospitals, by payment of the hospitalization tax, the Department should not be called on to pay for their accommodation in the Nursing Home while undergoing medical treatment.

141. *Unemployment Assistance—Canada Assistance Plan.* The Unemployment Assistance Act, *1956, c.26,* authorizes payments to the provinces and territories of 50% of the costs of providing assistance to persons who are unemployed and in need. Our Reports in 1967 (paragraph 115) and prior years have made reference to difficulties in the administration of the Act due in part to inadequate definitions of shareable costs, ambiguities in the text of the Act and the relationship between this program and other programs of social assistance. We recommended that consideration be given to the overall co-ordination of all programs involving assistance to individuals to avoid overlapping and duplication and to achieve greater equity in the treatment of individuals as well as a reduction in the cost of administration. The Public Accounts Committee in its Fourth Report 1963 concurred in our recommendations (see Appendix 1, item 4).

In 1966 Parliament enacted the Canada Assistance Plan, *1966-67, c.45,* under which the Federal Government has entered into agreements with the provinces to make con-

tributions, as set out in the Act, towards the cost of providing assistance and welfare services, pursuant to provincial law, to all persons in need. The new Plan was designed to be a comprehensive public assistance measure which would include all the kinds of assistance shareable under the Unemployment Assistance, Old Age Assistance, Blind Persons and Disabled Persons Acts as well as new forms of assistance not previously shared with the provinces. Under it the Federal Government shares more fully with the provinces in the cost of social assistance by extending the contributions to mothers' allowances, maintenance of children in foster homes, health care services and welfare services to persons in need or who are likely to become persons in need unless such services are provided.

Although it is expected that ultimately all contributions to the provinces towards the cost of social assistance will be made under the provisions of the Canada Assistance Plan, for the time being some provinces are continuing to claim contributions under one or more of the agreements pursuant to the Unemployment Assistance, Old Age Assistance, Blind Persons or Disabled Persons Acts concurrently with contributions under the Canada Assistance Plan agreement in respect of some of the new forms of assistance.

Contributions by Canada under the Plan became effective April 1, 1966, the provinces receiving advance payments on claims submitted, but statements of final costs certified by provincial authorities have not yet been submitted for the year 1966-67. Because of this, and because the provinces are still experiencing difficulties in adjusting the administration of their social assistance programs to take advantage of all the provisions of the Canada Assistance Plan, we have been able to make only a limited audit of the Plan and are therefore still unable to assess the effectiveness of the new comprehensive approach to social assistance in overcoming the administrative weaknesses reported in previous years.

142. *Lack of authority to spend revenue from operations.* The National Research Council of Canada was established in 1924 by the National Research Council Act, *R.S., c.239.* Since it was assumed at the time that the activities of the Council would be financed by parliamentary appropriations and that moneys received by the Council for its services would be minimal, the Act did not give any specific direction concerning revenue earned by the Council. Section 13(e) did, however, empower the Council

> to expend such sums of money as may be annually appropriated by Parliament for the work of the Council or that have been received by the Council through bequest, donation or otherwise.

By 1950, when the Council was receiving considerable revenue from laboratory fees, sales of publications and other operations, and was using its revenues to supplement its parliamentary appropriations, the scope and intent of section 13(e) became a matter of concern and was referred to the Department of Justice. It was the opinion of the legal officers that the Council did not have power under section 13(e) to expend moneys received from its operations and that the moneys should be accounted for as general

revenue of Canada. The section was amended in 1954 (*1953-54, c.42*) to allow the Council to expend any money "received by the Council through the conduct of its operations."

However, in 1966, section 13(e) was repealed (*1966-67, c.26*) and the following substituted therefor:

> (e) to expend, for the purposes of this Act, any money appropriated by Parliament for the work of the Council;
>
> (ea) to acquire any money, securities, or other property by gift, bequest, or otherwise, and to expend, administer or dispose of any such money, securities or other property subject to the terms, if any, upon which such money, securities, or other property is given, bequeathed or otherwise made available to the Council.

Although it appears that the Council is again subject to the restrictions that existed prior to 1954, it supplemented its appropriations in 1966-67 and 1967-68 with revenue from its operations in the amounts of $5,745,000 and $4,925,000.

143. *Duplicate payments under program of assistance towards research in industry.* In 1962 the National Research Council initiated a program to stimulate industrial research in Canadian industry. The program has been largely carried out under contracts whereby recipient companies are reimbursed the salaries and related expenses of scientific and technical personnel employed on approved research projects. From inception to March 31, 1968 expenditures under the program amounted to $16,900,000.

Early in 1967 the Royal Canadian Mounted Police were informed by a former employee of a recipient company that the salaries of two scientists had been charged by the company to a project being carried out for the Council when, in fact, the scientists had worked on other projects. At the request of the R.C.M.P., we made an examination of the company's records to determine the propriety of the charges that had been accepted by the Crown.

The company had been incorporated in 1961 and, during the period 1964 to 1967, received $388,000 in grants from: the National Research Council, $85,000; the Department of Defence Production, $123,000; the Department of Industry, $83,000; the Defence Research Board, $60,000; and Canadian Patents and Development Limited, $37,000. Our examination disclosed the following duplicate payments for salaries and related costs of scientists:

> (1) the National Research Council and the Department of Industry each paid $9,744 for scientists who had worked only on a project sponsored by the Department of Industry;
>
> (2) the Department of Defence Production and the Defence Research Board paid $1,060 and $1,476 for scientists who had worked only on a project sponsored by the National Research Council and for which the Council had paid $2,536.

The company acknowledged the overcharges and agreed to reimburse the Crown.

Prior to our examination, the National Research Council "General Conditions of Grant" did not contain an audit clause requiring proper accounts to be maintained and kept available for periodic review by government auditors. Such a clause now forms part of these conditions.

This case illustrates what may happen when government departments and agencies grant assistance to the same recipient without adequate financial co-ordination. (See paragraph 106 of this Report.)

144. *Departmental practices which lack statutory sanction.* In paragraph 118 of our 1967 Report we again drew attention to four practices of the Customs and Excise Division of the Department of National Revenue which lacked legislative sanction. These practices relate to:

(a) refunds of customs duties on an estimated basis;

(b) sales of goods unclaimed at Customs;

(c) determination of "sale price" for sales tax purposes; and

(d) refunds of duty paid on goods diverted to use other than that for which they were imported.

The Public Accounts Committee in its Eighth Report 1964-65 and its Fifth Report 1966-67 recommended that the practices referred to in (b), (c) and (d) should receive statutory sanction (see Appendix 1, item 25).

There were no amendments to the Customs Act, *R.S., c.58,* during the year and although there was one amendment (*1967-68, c.29*) to the Excise Tax Act, *R.S., c.100,* no change was made with respect to the "determination of 'sale price' for sales tax purposes". Nevertheless, the practices were carried on throughout the year.

Bill S-10, currently before Parliament, includes amendments to the Customs Act which if enacted will give statutory sanction to items (a), (b) and (d) above.

The following four other departmental practices which are contrary to the Excise Act, *R.S., c.99,* have been noted:

(a) operating bonded warehouses without the joint control of the licensee and excise officers—see section 51 of the Act;

(b) granting permission to distillers to remove from their premises packages containing less than five gallons of spirits—see sections 157 and 162 of the Act;

(c) granting permission to distillers to replace bottled spirits broken in an in-bond case warehouse with duty-free spirits—see section 54(1) of the Act; and

(d) refunding duty paid on beer exported from the country although the advance notice of export is less than the required 48 hours—see section 175 of the Act.

In its Fifth Report 1966-67 the Public Accounts Committee expressed the opinion that

> a government department should not initiate or take any action that is not authorized by Parliament even though it contemplates that Parliament may eventually take action to provide that authority. It [the Committee] considers that the actions of government departments must be limited at all times to the legislative authority existing at the time the action is taken.

145. *Goods imported under invalid tourist exemption claims.* Residents of Canada returning from abroad after an absence of not less than 48 hours are permitted to bring

with them goods valued at up to $25 without payment of duty. Residents returning from a point beyond the continental limits of North America, after an absence of not less than 14 days, are in addition entitled to bring with them or have shipped to them free of duty goods valued at not more than $75. A period of four months must elapse following importations under the $25 exemption and a period of 12 months must elapse following importations under the $75 exemption before another exemption may be claimed.

Declarations provided by the importers when claiming these exemptions are recorded by the Department of National Revenue in order to detect exemptions claimed more frequently than is permitted by law. Although violation of the regulation renders the goods subject to seizure, such action is not practicable because the violation cannot be determined until some time after the goods have been imported. Furthermore, precise rates of duty are not determinable because the Department cannot reasonably require the classification of all such goods upon entry. The current practice is to impose an arbitrary rate of 40% of the declared value of the goods to cover duty and taxes including the 12% sales tax.

Although the application of an overall rate may be practical, it lacks statutory authority and if it is to continue the approval of Parliament should be sought.

146. *Delay in collecting tax.* Section 30 of the Excise Tax Act, *R.S., c.100,* requires licensed manufacturers to pay sales tax on fully manufactured goods purchased for resale.

Some licensed manufacturers prefer to collect sales tax on all their sales, including sales of fully manufactured goods purchased by them for resale. In such cases the Department of National Revenue by regulation permits them to immediately deduct any sales tax paid on these purchases from amounts currently due the Department with respect to their taxable sales. The effect of this regulation is that a manufacturer's inventory of fully manufactured goods purchased for resale is carried free of sales tax and the requirement of the law that sales tax be paid on his purchases of fully manufactured goods for resale is completely negated.

In our opinion the practice is irregular under the present law. If the wishes of the licensed manufacturers concerned are to continue to be met, statutory sanction for doing so should be sought.

147. *Sales tax concessions to picture framers.* The Excise Tax Act, *R.S., c.100,* provides an exemption from sales tax for frames enclosing imported paintings or works of art but not for picture frames or framed articles manufactured in Canada. The Customs and Excise Division of the Department of National Revenue attempted to remove this anomaly on July 1, 1967 by adding picture framers to the list of classes of manufacturers not required to operate under a manufacturer's sales tax licence.

This concession is restricted by the regulations to manufacturers who manufacture goods of a particular class only to the order or specification of each individual customer; or to a manufacturer who manufactures either more than one class of goods for sale to consumers or users, or a particular class of goods not to the order of each individual

customer, and whose total annual sales of taxable goods do not exceed $3,000. However, all picture framers were granted exemption from sales tax without regard to these limitations.

A further exemption granted by the Department which lacked statutory sanction was with respect to picture frames which were not made subject to sales tax when the manufacturer could produce a certificate from the user that the frame was to be used to frame a painting or work of art.

These matters were drawn to the attention of the Department in February 1968 but it was not until September 1968 that the exemptions improperly granted to these manufacturers were withdrawn. Consequently, for a period of 15 months, tax payable on the sales value of certain Canadian frames and framing services was not collected.

The Department now agrees that the anomaly existing in the different treatment of Canadian manufactured frames and imported frames can only be remedied by an amendment to the Excise Tax Act.

148. *Concessions made to motor vehicle manufacturers.* In previous Reports (paragraph 119 in 1967) reference has been made to three programs under which concessions were made to motor vehicle manufacturers. We stated that the procedures followed by the Customs and Excise Division of the Department of National Revenue in administering the concessions were not adequate to protect the revenue. We also stated that it was essential that the Department take steps to strengthen its administration of the programs to ensure that importers concerned do not benefit from concessions beyond those approved by the Governor in Council and that revenues due to the Crown are promptly collected. The situation remains the same and

(a) there are still no records available showing the amount of customs duty involved or even the total value of the imports for which the manufacturer must account,

(b) the Department does not always receive adequate information on which to assess the importers' progress in meeting the conditions of the programs,

(c) delay in verifying the manufacturers' records continues because of lack of sufficient pressure by the Department on the manufacturers to submit the required annual statements by the due date, and

(d) departmental policy is to record amounts due by manufacturers who fail to qualify for the tax exemptions they have had only when the amount is finally determined rather than establishing an estimated amount as soon as it is known that an amount is receivable.

The situation at March 31, 1968 with respect to the programs previously referred to was as follows:

1. The British Commonwealth Content program is now of interest to the major vehicle manufacturers only in the event that they fail to meet the conditions of the Motor Vehicles Tariff Order 1965 and are required to pay duties and taxes on imports made under that Order on a duty-free basis. There were no transactions under this program during the year.

2. The program under Order in Council P.C. 1963-1/1544 of October 22, 1963 was superseded in January 1965 by a new program under the Motor Vehicles Tariff Order 1965. The only transactions now taking place under it are amendments to import entries dated prior to January 17, 1965. During the year, duties and taxes of $445,000 were remitted under this program when manufacturers amended import entries with respect to certain parts imported duty-free under the program prior to January 17, 1965 and subsequently incorporated into vehicles which were exported. In such cases some importers amended the original entry by paying the duty and then claimed 99% drawback under the authority of section 275 of the Customs Act, *R.S., c. 58*. This provided for them an unused balance of Canadian content credit which was then used for purposes of seeking refunds on other duty-paid items.

3. The Motor Vehicles Tariff Order 1965 came into effect in January 1965 and at March 31, 1968 duties estimated at $43.6 million were owing by manufacturers who had failed to meet its conditions or those of similar Orders applicable to particular companies. This amount, which was owing by 14 companies, has been reported by the Department as a contingent receivable on page 29.13 of Volume II of the Public Accounts (see also paragraph 241 of this Report). Not only has no attempt been made by the Department to collect any portion of these duties, but no attempt has been made to establish with any degree of precision the amounts owing by the individual manufacturers. The reason that the Department has used the term "contingent receivable" is that it considers there is a possibility that the amounts may be remitted by the Governor in Council under section 22 of the Financial Administration Act.

   This amount of $43.6 million has since increased to a possible $80 million as a result of determination by the Department that a vehicle manufacturer had failed to meet the requirements of the Tariff Order in the period August 1966 to July 1967. Last year we reported that this vehicle manufacturer had failed to meet the requirements of the Tariff Order in the period August 1965 to July 1966 and as a result owed an amount in excess of $30 million. The Department has since estimated the receivable at $38.6 million. As a result of failing to meet the requirements again in the succeeding period, this manufacturer now appears to owe in excess of $75 million.

Currently there are 35 vehicle manufacturers and approximately 500 parts manufacturers authorized to import under the Tariff Order. Sometimes parts so imported are diverted to use as replacements and when this happens the importer is required to pass an amending entry, paying the duty for which he would have been liable if the item had initially been imported under the appropriate tariff item.

The Customs and Excise Investigation Branch of the Department of National Revenue carries out audits to ensure that manufacturers account for these diversions and that amending entries are passed promptly. Since the inception of the program in January 1965, the records of most vehicle manufacturers have been audited only once by the Investigation Branch. However, only about 125 of the 500 parts manufacturers have had their records audited by this Branch.

A number of vehicle manufacturers are not under the Motor Vehicles Tariff Order 1965 because the type of vehicle produced by them is not covered by the Order or they were not in production in the base period, or unusual base period results prevented them from taking advantage of the Order. These manufacturers operate under individual remis-

sion orders under section 22 of the Financial Administration Act and, as may be seen on page 44.5 of Volume II of the Public Accounts, they received remissions totalling $2,179,000 during the year.

The following comments from paragraph 119 of last year's Report are still applicable as there has been no important change in the Department's administration of the concessions made to motor vehicle manufacturers:

> If the policy of assistance to the automobile industry is to be continued in the present form, it is essential that the administration be tightened up, that an adequate system of accounts be installed and that information flow into the Department promptly and continuously. The Department should obtain and maintain the initiative in assessing and collecting the taxes due the Crown. If necessary, penalties should be imposed to ensure that the industry provides promptly the information required for settlement of the accounts. If these steps are not taken the importers may benefit from concessions beyond those to which they are entitled and, as a result, losses of revenue to the Crown will occur. It is a fact that since the inception of the Motor Vehicles Tariff Order 1965, on January 18, 1965, not one cent of duty has yet been collected from any company for failure to meet the conditions of the Order.
>
> In the past, the concept that duties and taxes be paid at the time of importation, with penalties provided if payment of these duties and taxes was deferred, has been inherent in the Customs Act and Customs Tariff. This concept has been changed under the terms of the several motor vehicle tariff concessions with the result that from time to time substantial amounts, as referred to above, are owing by certain importers. To this extent the Crown is participating in the financing of automobile production.
>
> The term "manufacturer" is defined in the agreement dated January 16, 1965, between Canada and the United States of America and includes only those motor vehicle manufacturers who have met certain specified conditions, which are those set out by Canada in the Motor Vehicles Tariff Order 1965.
>
> However, it is not possible to determine that the motor vehicle manufacturers have met the conditions specified until their performance is known and Canada is not, in our opinion, obligated to permit duty-free importation by any manufacturer until he has met these conditions. Consequently, in order that the procedures applied will ensure an effective check on the revenues of the Crown, we believe that all duties and taxes should be collected at the time of importation and that benefits or incentives provided should be made available to the manufacturer only when evidence is produced that the required conditions have been met.

149. *Failure of provincially-owned instrumentalities to pay sales tax.* In our 1967 eport (paragraph 120) we described the compromise settlement made with respect sales tax on natural gas used by the British Columbia Hydro and Power Authority internal combustion engines for the production of electricity prior to the exemption of is gas from sales tax effective March 30, 1966.

We also stated that the files pertaining to the Saskatchewan Power Corporation se were not available for examination, having been referred to the Department of stice. The assessments of $262,000 were still unpaid and no assessment had been made r gas used during the period December 1955 to December 1957.

During the year, the Department of National Revenue assessed tax of $21,000 for is period bringing the total tax owing, including penalties, to $326,000.

In February 1968 the Corporation made an offer of $100,000 to the Department in full settlement. This offer was accepted by the Department and the balance of $226,000 was remitted by the Governor in Council under section 22 of the Financial Administration Act.

150. *Remissions granted by the Governor in Council under section 22 of the Financial Administration Act.* Section 22(1) of the Financial Administration Act provides that:

> The Governor in Council, on the recommendation of the Treasury Board, whenever he considers it in the public interest, may remit any tax, fee or penalty.

and subsection (8) requires that:

> A statement of each remission of one thousand dollars or more granted under this section shall be reported to the House of Commons in the Public Accounts.

In accordance with this requirement, listings of remissions of one thousand dollars or more are included in Volume II of the Public Accounts. As in previous years, the majority of these remissions pertain to customs and excise duties and excise taxes administered by the Customs and Excise Division of the Department of National Revenue. The totals of the remissions with respect to this Division for which amounts appear in the Public Accounts, in each of the past five years, are as follows:

1963–64	$ 12,518,000
1964–65	40,520,000
1965–66	34,826,000
1966–67	30,134,000
1967–68	29,506,000

In addition to the remissions for which amounts are shown, a number are granted where amounts involved are not accumulated or cannot readily be determined. In such cases a narrative description of the remission is included in the Public Accounts.

The largest group of remissions in terms of numbers involves goods or equipment imported into Canada on a temporary basis. These remissions amounted to $12.7 million in 1967-68 compared with $16 million in 1966-67 but the policy followed by the Department in reporting in 1967-68 is not consistent with that of previous years. In the past the remissions were reported as of the time of the temporary entry of the goods. However, in many of these cases the amount remitted is the difference between the full duties and taxes and a pro-rated amount being assessed by the Department for each month the article remains in Canada, so the exact amount of the remission is not known until the article is exported. In such cases the Department in 1967-68 adopted the policy of reporting the remission as of the time the article is exported. Thus, the listing of remissions does not include remissions granted on certain articles which were still in Canada at March 31, 1968. These are to be reported as the articles are exported.

In previous Reports we have stated that where the policy of the Governor in Council to remit duties on temporary imports is being followed consistently, it has the same effect as if statutory provision were made for importation on a duty-free basis, or on the

basis of a pro-rated amount being assessed for each month the imported article remains in Canada. We suggested that consideration be given to suitable amendments to the governing legislation to permit elimination of routine referrals to the Governor in Council.

Sixty-seven remissions granted during the year totalling $627,000 have been included in the Public Accounts under the following descriptive narrative:

> Remissions of taxes imposed under the Excise Tax Act in cases where, on the basis of expert opinion, it is considered that litigation would not be expedient.

In 1967-68, as in the previous years, the majority of these remissions were in favour of lumber manufacturers who had misinterpreted the regulations issued by the Department in connection with the taxable sale price of lumber.

In December 1967 the Department of Industry announced a machinery program enabling Canadian industries to acquire capital equipment at the lowest possible cost. An important feature of the program is the provision for remission of duty when this is in the public interest and the machinery imported is not available from production in Canada. By March 31, 1968 numerous importers had been granted remissions of duties totalling $1.8 million on specific items imported.

The listing of remissions for 1967-68 includes a narrative description of remissions of a continuing nature, regardless of the year in which they were granted, if individual benefits of $1,000 or more are derived under them in the current year, but continuing remissions under which no benefits were obtained during the year have not been included. We reiterate the view expressed in our 1967 Report (paragraph 121) that remissions of a continuing nature should be revoked once they have served their purpose and should not be left available for the benefit of future individual cases which might happen to qualify under them. Furthermore, in the interest of full disclosure to Parliament, unrevoked remissions of a continuing nature should be reported in the Public Accounts annually.

151. *Removal of sales tax on pharmaceuticals.* The removal of the sales tax on drugs effective September 1, 1967, as announced by the Minister of Finance in his budget speech on June 1, 1967, presented the industry with a problem with respect to sales tax paid on inventories acquired prior to that date.

Representations were made to the Department of National Revenue and discussions were held with a view to minimizing any loss which might be incurred on these inventories. Consideration was first given to the possibility of shipments from manufacturers to wholesalers prior to September 1 being made on consignment and the Department indicated that it would approve of this practice provided they were true consignment shipments. Departmental officers then pointed out the provisions of section 30 (1)(a)(ii) of the Excise Tax Act, *R.S., c.100,* which reads as follows:

> 30. (1) There shall be imposed, levied and collected a consumption or sales tax of nine per cent on the sale price of all goods
>
> (a) produced or manufactured in Canada
>
> (ii) payable, in a case where the contract for the sale of the goods (including a hire-purchase contract and any other contract under which property in the goods passes

upon satisfaction of a condition) provides that the sale price or other consideratic shall be paid to the manufacturer or producer by instalments (whether the contra provides that the goods are to be delivered or property in the goods is to pass befo or after payment of any or all instalments), by the producer or manufacturer *p tanto* at the time each of the instalments becomes payable in accordance with tl terms of the contract.

The following conditions were to be met by manufacturers of pharmaceuticals wh availed themselves of the provisions of this section of the Act:

1. Purchase orders clearly outlining terms of payment must be signed by purchaser ar accepted in writing by vendor.
2. Invoice must clearly indicate terms of payment. (This must appear on the copy us for sales tax purposes).
3. These records will require to be verified by excise tax auditors.
4. This provision is to be effective only during the months of July and August 1967.
5. If any monies are paid by the purchaser to the manufacturer prior to September 1, 196 in respect of the goods sold on an instalment basis, such amounts are subject to sal tax.

It is the Audit Office view that the intent of section 30 (1)(a)(ii) is that tax impose at the time of the sale be paid proportionately at the time each of the instalments und the sales contract becomes payable. It is the Department's view that this clause does n relate solely to the date on which the tax must be paid but that the tax is imposed c that date of payment at whatever rate may then be in effect. If the Department's vie is correct then consideration should be given to the section as, in the case of an increa in the rate of sales tax or of the imposition of sales tax on goods not now subject theret a taxpayer who is under obligation to make instalment payments to a supplier would l taxed on transactions which took place in the past, whereas the taxpayer who had pa in full would not be taxed.

Regardless of the interpretation to be placed on section 30 (1)(a)(ii) of the A the effect of the procedure followed was to advance from September 1 to July 1 the da from which manufacturers of pharmaceuticals were permitted to make sales free of sal tax. The Audit Office is of the opinion that, as Parliament had designated three specii dates for the coming into force of the various sections of the amending Act *(1967-6 c.29)*, then Parliament should have been requested to establish the date of July 1, 19 for the removal of the sales tax on pharmaceuticals if that date were considered to be tl desirable one.

152. *Smuggling by customs officers.* In April 1966 the Department of Nation Revenue employed a man to serve as a customs officer at one of the border ports. I assumed his duties before character references were sought. Within several weeks of h commencing work, character references were received by the Department indicating th he had been given two suspended sentences, one for theft and one for false pretence Notwithstanding this information, the Department did not remove this officer from tl position of trust in which he had been placed.

During the summer of 1967 the Department found it necessary to carry out an investigation of certain activities which had been taking place at this port of entry. The investigation indicated that this officer, together with another officer and the manager of a duty-free store located in the United States, had smuggled large quantities of liquor into Canada. Although there was insufficient evidence to warrant prosecution of the manager of the duty-free store, the two officers were dismissed and the collector at the port was allowed to retire voluntarily.

As the Crown is a self-insurer, there is not the same restraint on the employment in positions of trust of persons who are not trustworthy that exists in the commercial world where a fidelity bond is usually required as a condition of appointment to such a position. This makes it imperative that the background and character of prospective employees be carefully examined before placing them in positions of trust.

153. *Calculation of duties of excise on spirits distilled or brought into a distillery.* Reference was made in our 1967 Report (paragraph 123) to section 137(1) of the Excise Act, *R.S., c.99,* which defines five separate methods for the determination of duty on spirits and directs that the "method of computation which yields the greatest amount of revenue, shall, in all cases, be the one upon which the distiller shall pay the duty".

Only one of these methods provides for abatements of the duty on the spirits for shrinkage by evaporation while maturing. It is this method which is in use by the Department of National Revenue notwithstanding the fact that it produces less revenue than the alternative methods. The explanation given by the Department is that if this particular alternative was not chosen, the abatement provisions of the Act would be totally ineffective and it did not consider that this was intended by Parliament. However, the choice made by the Department has rendered completely ineffective the requirement that the method yielding the greatest amount of revenue is to be used.

Under the present wording of the legislation there is an annual shortfall of revenue in excess of $50 million. If it is intended that such abatements be continued, then the Act should be suitably amended.

154. *Disposal of Crown-owned houses.* In our 1965 Report we drew attention to Crown-owned houses located at Coutts, Alta., being declared surplus to requirements by the Customs and Excise Division of the Department of National Revenue and subsequently sold by Crown Assets Disposal Corporation for less than one-third of their cost 12 years earlier. We stated that the price obtained for the properties sold may have been in line with current values but a loss of this magnitude suffered by the Crown on properties built only 12 years previously raised the question of the justification for the construction of the houses in the first place.

During the year four other properties located at Coutts were declared surplus to requirements by the Department and sold by Crown Assets Disposal Corporation for $20,000. These properties had cost $55,000 in 1954 so there was a 64% capital loss over a period of 14 years. The loss seems excessive, especially in view of the inflationary pressures in recent years.

The Crown still owns 10 properties at Coutts, three of which have been vacant for periods of from six to 37 months.

At Lewisporte, Nfld., a property was declared surplus to requirements by the Department in 1967 and was sold by Crown Assets Disposal Corporation to the Town of Lewisporte for $1,200. The house was demolished and the lot put to use as a public parking area. The municipality had previously been receiving a grant in lieu of taxes based on an assessment of $6,000.

In explaining to the Public Accounts Committee the earlier disposal of houses at the port of Coutts, officers of the Department stated that their decision to declare the houses surplus was based on a policy expressed by the Treasury Board in May 1964 that where government employees are no longer required to live at sites where there are government houses "these dwellings are now surplus to requirements and they should be disposed of since the Crown has no business in competing with private landlords in the rental business and the costs of administration and maintenance often exceed the low rentals collected".

In its Fifth Report 1966-67 to the House dated October 19, 1966 the Standing Committee on Public Accounts, referring to the policy, stated that:

> The Committee does not consider that this policy directive contemplated or necessitated a 70% capital loss being taken by the Department ... The Committee intends to pursue this matter with Crown Assets Disposal Corporation.

155. *Computation of income for tax purposes.* Section 17(2) of the Income Tax Act, *R.S., c.148,* states:

> Where a taxpayer carrying on business in Canada has sold anything to a person with whom he was not dealing at arm's length at a price less than the fair market value, the fair market value thereof shall, for the purpose of computing the taxpayer's income from the business, be deemed to have been received or to be receivable therefor.

In the course of our examination at a district taxation office of the Department of National Revenue, a situation came to attention in which a Canadian manufacturing company sold about 70% of its annual output to a wholly-owned subsidiary domiciled in Canada. The profits of this subsidiary company are not subject to Canadian income tax.

During the years 1961 to 1966, the net operating income of the subsidiary company was nine times greater than the net operating income of the parent company notwithstanding the fact that the latter's production made up half of the subsidiary's sales. This situation appears to be primarily the result of the inter-company billing level used by the parent in charging its subsidiary.

The Department did effect a settlement in 1967 but in our opinion the requirement of section 17(2) of the Act was not met and as a consequence an effective assessment of income tax was not made.

156. *Avoidance of tax by closing "permanent establishment in Canada".* We have noted instances where companies have ceased operations in Canada and become non-resident, thereby avoiding the payment of taxes on the proceeds of the sale of rights, licences and privileges.

Section 83A (5b) of the Income Tax Act, *R.S., c.148,* provides that where a right, licence or privilege to explore for, drill for or take, in Canada, petroleum, natural gas or other related hydrocarbons (except coal) is disposed of after April 10, 1962 by certain corporations, associations, partnerships or syndicates, any amount received by the corporation, association, partnership or syndicate as consideration for the disposition thereof shall be included in computing its income for its fiscal period in which the amount was received.

This section includes the word "received" and a company may therefore cease its operations and sell its assets on terms calling for payment for the right, licence or privilege to be made at a date subsequent to the sale. As such a company is not required to file subsequent tax returns because it does not have a permanent establishment in Canada subsequent to the date of cessation of operations and sale, it can thus legally avoid paying income tax on the amount received at a later date.

The budget resolutions presented to the House of Commons by the Minister of Finance on October 22, 1968 included the following resolution designed to prevent the avoidance of income tax in this way in future:

> That with respect to dispositions after October 22, 1968, subsections (5b) and (5c) of section 83A of the said Act, which presently provide for including in income of a taxpayer the proceeds received from the disposition of certain gas and oil rights, provide that the proceeds receivable from such dispositions be included in income in the taxation year in which the disposition occurred, and that section 85B of the said Act be extended to entitle a taxpayer carrying on business in Canada to claim a reserve in respect of proceeds receivable from such dispositions after October 22, 1968 that have not been received at the end of his taxation year.

157. *Income tax owing by non-residents.* In paragraph 125 of last year's Report reference was made to the deletion from the accounts, with the approval of Parliament, of income taxes amounting to $7 million owing by 403 taxpayers from whom collection could not be effected because they were no longer resident in Canada. During the year, Treasury Board Vote 7c of Appropriation Act No. 1, 1968, *1967-68, c.34,* authorized the deletion from the accounts of certain debts due to Her Majesty aggregating $19 million. Of this amount $16.8 million represented uncollectable income tax, of which $5.2 million was owing by 267 taxpayers from whom collection could not be effected because they are no longer resident in Canada. This is a continuing problem which is aggravated by the fact that a person emigrating from Canada is not required to obtain a tax clearance before departure, by the lack of any agreement with other countries for the collection of tax on a reciprocal basis and by the apparent inability of any government to make use of the courts of another country for tax collection purposes.

The problem is not limited to persons who are non-resident, as it exists to some degree in the case of residents of Canada living near the United States border who are employed in the United States. Such persons are taxable in Canada on all their income

whether earned in the United States or Canada, but collection becomes impossible if the taxpayer chooses to arrange his affairs in such a way that any assets which might be seized are kept in the United States.

Consideration should be given to the development of procedures designed to minimize the evasion of payment of income tax by persons leaving Canada or removing assets from Canada.

158. *Income tax concessions to members of the Armed Forces.* In our 1967 Report (paragraph 126) attention was drawn to income tax concessions to members of the Armed Forces. Two concessions were referred to. The first was that a serviceman unlike a civilian taxpayer, receives the benefit of married exemption even though his wife's income exceeds $1,250, and where his wife has an income between $250 and $1,25 in a taxation year, he is not required to reduce his married exemption by the amoun by which his wife's income exceeds $250. We pointed out that if the wives of only 1,00 of the 72,000 married servicemen have an annual income of $1,250 or more, then the minimum annual loss to the Crown is equivalent to the income tax on $1 million o taxable income.

The second concession referred to was a provision in the Regulations made pursuan to section 66(1) of the Income Tax Act, *R.S., c.148,* that no amount of tax is to b paid by a member of the Canadian Forces on amounts of pay and allowances payabl to him in a taxation month in consequence of an upward adjustment in the montl of his pay and allowance entitlements for a month.

The situation remained the same throughout the year under review and as result the Crown continued to suffer a loss of tax by reason of the full married exemptio being allowed to servicemen whose wives had an income in excess of $250, and als suffered a loss of tax on $2 million of taxable income for the month of October 196 with respect to a pay increase commencing in that month.

159. *Children's allowance paid to members of the Armed Forces serving abroad.* I previous Reports (paragraph 127 in 1967) we have drawn attention to the fact tha allowances provided to members of the Armed Forces, posted to a unit of the Canadia Infantry Brigade or the Air Division in Europe, include a children's allowance to com pensate for the loss of family allowances which would have been received had th children remained in Canada, and to the fact that such members are permitted to clair the income tax exemption of $550 for each dependent child not qualified for famil allowances.

A similar situation exists in connection with an allowance paid to Foreign Servic Officers with respect to a child.

When we drew this anomaly to the attention of the Taxation Division of th Department of National Revenue we were advised that appropriate amendments t the Income Tax Act, *R.S., c.148,* and Income Tax Regulations would be proposed t provide that the deduction permitted for a wholly dependent child not qualified fc

family allowances will be limited to $300 when children's allowance has been paid to a member of the Armed Forces on behalf of a dependent child.

The budget resolutions presented to the House of Commons by the Minister of Finance on October 22, 1968 included the following resolution proposing an amendment to the Income Tax Act in order to remove this anomaly with effect from the 1969 taxation year:

> That for 1969 and subsequent taxation years, the deduction in computing taxable income of $300, or of an amount not exceeding $300, now based on a child who is qualified for family allowance be based on a child who has not attained the age of sixteen years before the end of the year and the deduction of $550, or of an amount not exceeding $550, now based on a child not so qualified be based on a child who has attained the age of sixteen years before the end of the year.

160. *Insufficient penalty for late payment of income tax.* In our 1967 Report (paragraphs 128 and 198) we drew attention to the $288 million of income tax remaining unpaid at March 31, 1967 and indicated that the imposition of penalties for late payment over and above the 6% interest which is payable on taxes paid after the due date could be of material assistance to the Taxation Division of the Department of National Revenue in collecting its outstanding accounts.

The situation remained the same throughout 1967-68 and unpaid taxes at March 31, 1968 amounted to $278 million.

161. *Cost of printing income tax deduction tables.* The budgetary proposals presented by the Minister of Finance on November 30, 1967 included income tax proposals which were to be made effective January 1, 1968. Bill C-193 to amend the Income Tax Act was given first reading on December 18, 1967.

In preparation for the changes which were to take effect on January 1, 1968, the Taxation Division of the Department of National Revenue arranged for the printing of new income tax deduction tables at a cost of $35,400. These tables were mailed to employers at an estimated cost of $18,300 for postage and were in use for only three months because Bill C-193 was defeated on third reading on February 19, 1968.

When this happened the Department again arranged for revised income tax deduction tables at a cost of $35,700. These tables were never distributed because they contained an error and because Bill C-208, which received Royal Assent on March 27, 1968, provided for a 3% temporary surtax requiring the preparation of yet another set of tax deduction tables.

The printing of two sets of income tax deduction tables, which as it turned out were not required, resulted in non-productive expenditure of $89,400.

162. *Second class mail.* For the year ended March 31, 1968 the Post Office Department incurred an operating deficit of $67.2 million compared with a deficit of $47.8 million in the previous year. In arriving at these operating results, the Department

has taken credit for the interest value of balances held in the Money Order Account and Post Office Savings Bank less interest allowed on Savings Bank accounts. (See paragraph 307 of this Report.)

Of the deficit of $67.2 million, $37.5 million is attributed to the loss on the handling of mailings by publishers of newspapers and other periodicals (second class mail), an increase of $3.7 million over the loss on second class mail in the previous year.

The following figures show the estimated loss in handling second class mail in those years for which the loss has been calculated:

	Cost	Revenue	Loss
1956–57	$ 25,200,000	$ 6,300,000	$ 18,900,000
1958–59	27,900,000	6,200,000	21,700,000
1961–62	32,700,000	8,000,000	24,700,000
1965–66	36,900,000	8,800,000	28,100,000
1966–67	43,000,000	9,200,000	33,800,000
1967–68	47,200,000	9,700,000	37,500,000

The Public Accounts Committee has expressed the opinion that sufficient considera- tion has not been given to the solution of this problem which it first considered in 195[illegible] and in its Fourth Report 1966-67 stated that:

> It considers it essential that the Post Office Department or Parliament immediately find way[illegible] and means of covering the loss of the Post Office Department in handling second clas[illegible] mail without this being done at the expense of other classes of mail, keeping in mind, how ever, the need of assistance to small independently-owned newspapers circulating in rura[illegible] areas. (See Appendix 1, item 1.)

By an amendment (*1968-69, c.5*) to the Post Office Act, *R.S., c.212*, which was give[illegible] Royal Assent on October 31, 1968, the second class rates of postage were increased. I[illegible] moving second reading the Postmaster General informed the House that with no increas[illegible] in postage rates the loss on second class mail would increase to $54.6 million in 1969-7[illegible] and that the increases proposed would reduce this forecast loss to $39.1 million. The los[illegible] in 1969-70 will presumably exceed $39.1 million because the increased rates which origin ally were to have taken effect on April 1, 1969 are now being made effective in three stage[illegible] on April 1, 1969, October 1, 1969 and April 1, 1970.

163. *Failure to collect postage at proper rate.* The postage rates applicable to th[illegible] various classes of mail handled by the Canada Post Office are complex and postmaste[illegible] sometimes charge an incorrect rate. When an undercharge on second class mail is sub sequently noted, the Post Office assesses the insufficient postage against the mailer an[illegible] recovers the revenues properly due.

In an instance noted during the year, a newspaper publisher prevailed upon a post master at one of the smaller post offices to accept unaddressed copies of his newspap[illegible] at the second class postage rate rather than at the higher third class householder rat[illegible]

The error was detected and the Post Office attempted unsuccessfully to obtain payment of the balance of the postage. The matter was referred to the Department of Justice with a view to taking action to enforce payment of the amount due. However, the Department of Justice expressed the opinion that the Postmaster General was not empowered to impose liability for postage due and that an action could not be maintained against the publisher in this case.

Because of the complexity of the postage rates and the fact that the collection of postage is decentralized over hundreds of post offices throughout the country, it is inevitable that errors will occur. If, as appears now to be the case, the Post Office lacks legal authority to enforce payment of the proper postage once the mail has been accepted, the effect on postal revenues could be serious.

Consideration should be given to suitable amendments to the Post Office Act to ensure that the Post Office can effectively carry out the provisions of the Act with respect to the assessment and collection of postal revenues.

164. *Post Office pay.* In the course of test examinations of the pay records in 46 post offices, numerous errors were noted, particularly in connection with the computation of overtime, holiday pay and leave credits. These errors resulted for the most part from misinterpretation of pay regulations causing overpayments and underpayments of salary totalling several thousand dollars.

Apart from mathematical errors, there were errors in recording the number of regular hours worked, improper recording of overtime, confusion respecting rotation days and days of leave, errors respecting night differential, payment of rates higher than authorized, errors in the use of punch time cards, etc. Instructions issued respecting the statutory holiday on July 1, 1967 (Saturday) and the public holiday on July 3, 1967 (Monday) did not adequately cover the special conditions peculiar to the Post Office Department and resulted in confusion and lack of consistency in making salary payments in the various post offices.

The chief reason for the multiplicity of errors appears to be the failure of the Department to up-date, amend and consolidate the pay regulations in conformity with the new Public Service Terms and Conditions of Employment Regulations which came into effect on March 13, 1967, particularly with respect to the conditions peculiar to postal employment and the classes of postal employees. A contributing factor has been the lack of centralized direction because of the policy under which District Post Offices issue their own interpretation of the regulations. This has resulted in conflicting and inconsistent instructions as between headquarters and district offices, as well as between the various district offices. This lack of centralized direction has led to confusion and ambiguity and has compelled payroll personnel to make their own decisions, resulting in numerous overpayments and underpayments.

165. *Losses resulting from the sale or distribution of government publications.* The need for effective planning and pricing controls for the printing of government publica-

tions for sale or free distribution is illustrated by the following instances where losses have occurred:

1. In September 1965 the Treasury Board granted authority to the Department of Publi Printing and Stationery for the printing of a Centennial publication entitled, "Canada A Year of the Land". The departmental submission to the Board indicated that, althoug the book was envisaged as the ultimate in a Centennial prestige publication, all cost were expected to be recovered through sales to the public. The selling price originall set by the Department at $30 was later reduced to $25 a copy. During the year 25,00 copies were printed at a cost of $514,000, excluding costs of direct advertising, distribu tion, administration and postage. The Department does not maintain a revenue recor for each publication, but as it is estimated that 80% of the copies were sold to indepen dent retailers at the authorized discount price of $15 a copy, the total revenue would b about $425,000. Thus, the Crown incurred a substantial loss on sales of this publication

2. As early as 1965, plans were developed for the publication of a series of nine brochure dealing with the Canadian Pavilion exhibits at the 1967 World Exhibition. Purchas orders issued early in April 1967 called for delivery by April 25, 1967, in time for th opening of the Exhibition. Because of persistent changes in the copy material, deliver of the brochures did not begin until mid-June 1967 and continued throughout July an August, and in one instance into the final week of the Exhibition in October 1967. Afte the closing of the Exhibition the brochures had limited appeal although the Departmen of Public Printing and Stationery continued its efforts to sell them by offering them a a substantial discount. It is apparent that as a result of delays in delivery which affecte the marketing of the brochures, the Department will incur a substantial loss. The bro chures cost $81,000, not including design, editing and distribution costs. There is n precise record of sales of individual publications available in the Department but, base on quantities still on hand eight months after the end of the Exhibition, a liberal esti mate of sales revenue would be $20,000.

3. In July 1966 the Department of Manpower and Immigration requisitioned the printin of 170,000 copies of the English language edition of the booklet "Career Outlook—Uni versity Graduates" at a cost of $28,000. Approximately three months later, on Octobe 21, a purchase order was placed with a commercial printing firm and ten weeks late on December 29, the final proofs were submitted to the Department. The job was com pleted and the booklets delivered in February 1967.

   The French language edition of this booklet was not requisitioned by the Depart ment until October 11, 1966 and three months later a purchase order was placed f 45,000 copies to cost $9,500, specifying delivery in 60 days. When the booklets were n available in May, the quantity ordered was reduced to 5,000 copies to cost $7,700. Th final proofs were not submitted to the Department until June 28, more than five mont after the order was placed, and delivery was not made until August, much too late f distribution of the booklet to the 1967 graduates.

4. The English language edition of "Career Outlook—Technological Institute Graduates was requisitioned by the Department of Manpower and Immigration on August 17, 196 The purchase order was issued six weeks later on September 30, 1966 and in less tha a month the final proofs were submitted to the Department of Manpower and Immigra tion. The printing was completed and the booklets delivered in January 1967. The Frenc language edition of this booklet was not requisitioned by the Department until Januar 11, 1967 and a purchase order was issued on March 22, calling for delivery in four week However, nine weeks went by before the final proof was submitted to the Departme

of Manpower and Immigration and, as it was then too late for the booklets to be provided to graduates of technological institutes, the quantity was reduced from 15,000 copies at a price of $3,800 to 2,500 copies at a price of $2,500. The printing of this reduced quantity was completed and the booklets delivered in July.

5. During 1967 payments of $9,900 additional to the contract price of $62,000 were made for the tourism publicity booklet "Adventure along the Trans-Canada Highway", sponsored by the Canadian Government Travel Bureau. The additional payments resulted from the over-printing required because the Newfoundland section of the Trans-Canada Highway had been described as being partly paved when in fact at the time of the printing the paving of the highway had been completed.

166. *Cash discounts lost.* In our 1967 Report (paragraph 131) we drew attention to the fact that the majority of the cash discounts offered to the Department of Public Printing and Stationery were lost because of delays in making payments. Although some improvements were made during the latter part of the year in the mechanics of the system and in the regulations which govern the payment of invoices in this Department, discounts amounting to $9,000 were lost during 1967-68.

167. *Public Printing and Stationery revolving fund.* Prior to the transfer in 1963-64 of certain printing functions from the Department of Public Printing and Stationery to the Department of Defence Production, publications printed by commercial printers for the Department of Public Printing and Stationery were paid for through the Queen's Printer's Advance Account. Subsequently, a revolving fund was authorized by Vote L33a, Appropriation Act No. 10, 1964, *1964-65, c.34,* as amended by Vote L65e, Appropriation Act No. 4, 1966, *1966-67, c.6,* to be used by the Department of Public Printing and Stationery in paying for the printing of publications by commercial printers.

In fact, a payment out of the revolving fund is normally closely followed by reimbursement from the ordering department. This duplication of the paying process could be eliminated if suppliers' invoices, after being approved by the Queen's Printer, were paid directly from departmental appropriations instead of from the revolving fund, thereby reducing administrative costs.

168. *Public Printing and Stationery Act, R.S., c.226.* In our 1967 Report (paragraph 133) we pointed out that, as all functions of the Department of Public Printing and Stationery, except the procurement of print for books and publications and their distribution, had been transferred to the Department of Defence Production, the provisions of the Public Printing and Stationery Act have limited significance in the administration of the printing and stationery activities of the Government of Canada. The legislation has remained substantially unchanged since 1886 and many sections of the Act, although still law, are ignored completely.

We reiterate our belief that the legislation should be brought up to date at the earliest opportunity.

169. *Cost of unused hotel accommodation for language training courses.* The Public Service Commission entered into agreements with a hotel in the Province of Quebec to provide accommodation for senior civil servants attending complete immersion courses in the French language.

The agreements guaranteed the occupancy of 14 single rooms for the period January 8 to May 28, 1967, 27 single rooms from October 8 to December 17, 1967, and 25 single and one double room from January 21 to June 7, 1968, at an all-inclusive rate of $20 per day for each student and professor. The accommodation occupied by the students was paid for by the students themselves and the costs reimbursed to them by their respective departments, while the cost of accommodation for the professors was borne by the Commission.

Due mainly to withdrawals from the programs on short notice, full attendance was not achieved and consequently the Public Service Commission was required to pay $11,340 as the cost of unoccupied rooms during these periods, of which $840 was paid in the year ended March 31, 1967, $4,300 during 1967-68 and $6,200 in 1968-69.

170. *Real property inventory.* In last year's Report (paragraph 134) we referred to the progress being made towards the establishment of a centralized system of reporting publishing and maintaining an inventory of real property. We stated that about 4,000 properties had been recorded and that the Department of Public Works expected to produce the initial listing in the near future.

The first print-out of the inventory, based on data relating to over 6,000 properties was distributed to departments and agencies in April 1968. It included the majority o federal holdings in the major urban areas. Although practically all buildings are now included in the inventory, it has not been possible to make the same progress with regard to marine facilities and data in that connection is unlikely to be fully available befor 1971. We have been informed that present plans are to issue a second print-out befor the end of 1968 which will cover approximately 9,000 properties, and that eventuall there will be an annual listing supplemented by a quarterly reporting of surplus property

With the release of the first print-out, a Treasury Board Management Improvemen Policy Statement was issued, objectives of which were to reaffirm responsibilities fo continuing accumulation of data and the operation of the inventory, to discuss its utiliza tion, and to invite contributors to indicate their anticipated information requirements

171. *Federal land and assets occupied and used by the Province of Quebec in th Montreal-Longueuil area.* In our 1967 Report (paragraphs 79 and 96) reference wa made to financial and legal problems encountered by the Federal Government in respe of various federal lands and assets occupied by the Province of Quebec in the Montrea Longueuil area. Specific reference was made to:

(1) approximately 1,500,000 square feet of land taken by the Province without agreeme or compensation to form integral approaches to the Jacques Cartier Bridge;

(2) approximately 2,358,000 square feet of land with an estimated minimum value of $4 million taken by the Province without agreement or compensation for service roads connecting a municipal street system to a nearby provincial highway;

(3) remainder lands rendered useless or of little value by virtue of the road allowances taken by the Province;

(4) the expropriation by the Province of a portion of the Craig Street armoury site which is holding up settlement between the Crown and the City of Montreal involving this site and the adjacent Champ de Mars property.

A special committee of senior officers of the departments and agencies directly involved had been formed to review and consider alternatives and legal means available for the settlement of the problems.

It has since been decided that any negotiations should be preceded by the preparation of a complete inventory of land used by the Government of Canada in the Montreal area and an assessment of what its future requirements are likely to be. It was also considered essential to know the needs of all federal agencies, such as The St. Lawrence Seaway Authority and the Canadian National Railways, and of any claims by them against the provincial or municipal governments. All claims should be considered in the context of any overall settlement.

As departments or agencies with problems in the Montreal-Longueuil area have either not reported fully or have made no report for purposes of the Central Real Property Inventory (see paragraph 170 of this Report), due in some instances to a lack of knowledge of the extent of their holdings, it is evident that considerable time may elapse before the basic requirements which are to precede negotiations for settlement can be met.

172. *Increasing accommodation rental costs.* In last year's Report (paragraph 135) we pointed out that although the Royal Commission on Government Organization recommended that departments and agencies be charged for accommodation and real property services rendered to them by the Department of Public Works, this recommendation was not among those approved up to that time by the Government. That is still the case. We suggested that as long as the Department of Public Works must absorb rental costs out of its own parliamentary appropriations while the ultimate choice of accommodation rests with client departments, costs are likely to be higher than necessary. In our view, if the costs of accommodation were to be charged to the occupying departments or agencies, it is reasonable to suppose that they might be more cost-conscious.

Last year the increasing importance of rental costs was demonstrated by a comparison of such costs incurred by the Department of Public Works in 1964-65 and in 1966-67. We showed that in 1966-67 total rental outlay was $17,148,000, of which $10,301,000 related to premises in Ottawa and Hull. Comparable figures for 1967-68 show an acceleration of the trend towards substantially higher costs. Total rental outlay was $27,216,000, of which $14,271,000 was for space in the national capital area and $12,945,000 pertained to other areas both in Canada and abroad. The latter amount represents an increase of 89% over the amount of $6,847,000 in 1966-67.

The increase in costs reflects both higher rates and additional space requirements. In the Ottawa-Hull area, for instance, the 3,650,000 square feet of space under lease at March 31, 1967 had risen to 4,725,000 square feet by March 31, 1968.

The experience of the Department of Public Works with respect to a six-storey building in the downtown area of Ottawa provides an illustration of why rental costs have increased sharply in recent years. In 1950 the Department leased 51,940 square feet comprising most of the space in this building for a period of ten years at an annual rental of $114,000. The lease was renewed in 1960 for a further period of five years at an annual rental of $118,000. In 1965 the lease was again renewed briefly at a rate of $145,000 per annum and the space was vacated on October 31, 1965. A condition of the lease was that the premises would be surrendered in good and tenantable repair, reasonable wear and tear excepted, and the Department was called upon to pay the lessor $113,000 in 1966 for his expense in rectifying damage beyond the "reasonable wear and tear" limit.

With effect from July 1, 1967 the Department leased the whole of the same building, approximately 55,000 square feet, for a period of ten years at an annual rental of $230,000 to accommodate units of the Department of External Affairs. In addition, in the event that municipal real estate taxes, excepting local improvement charges, rise to the extent that in any tax year the taxes exceed 120% of the tax imposed for the base year 1967 the Crown will pay the excess. Although the Department of Public Works considered the rental high for the type of accommodation provided, it was felt that the rate was likely to be considerably below the market value during the latter part of the ten-year term.

173. *Eating facilities for Crown employees in public buildings.* In our 1966 Repor and again in 1967 (paragraph 137) we pointed out that one of the conditions attache to the general policy respecting the installation of eating facilities for government em ployees in public buildings is that cafeterias will be installed only when the public servic population is large enough to ensure that operations can be conducted without any los of public funds; that despite this policy such operations are in fact subsidized to a con siderable extent because no charge is made by the Department of Public Works to th operators for space, fixed kitchen and serving counter equipment, tables, chairs, utilit costs, etc.

We also pointed out that the Royal Commission on Government Organization, i commenting on food services, observed that although it is common practice for commerc and industry to provide meals to employees at less than cost, such subsidies are carefull costed for purposes of management control; that until the Department completes step to segregate operating costs by buildings, and in this process isolates the cost of eatin facilities, the extent to which cafeteria operations are subsidized cannot be determine

Last year we reported that we had been informed that although a cost system t produce the required results was being developed, it was unlikely to be completed an applied within the next two or three years. The Department and the Treasury Boar secretariat have since had a number of discussions relating to the costs of providin eating facilities and the development of the required cost system is continuing.

Until the Department is in a position to ascertain on a continuing basis the actual cost of providing cafeterias and similar facilities for public servants, there cannot be proper management control.

174. *Cost of the National Arts Centre, Ottawa.* In 1963 the Government decided that a National Arts Centre should be developed as a Centennial project for Ottawa. Construction has been in progress since early 1965 and the work is expected to be completed early in 1969. Although the first estimate of the cost of the work prepared by the Department of Public Works and submitted to the Treasury Board in June 1964 was $18,223,000, by October 1968 the estimated final cost had risen to $46,426,000. A comparison of the items making up these amounts follows:

	Estimated cost	
	June 1964	October 1968
Garage	$ 3,800,000	$ 6,606,000
Main building	12,880,000	33,363,000
Canal promenade	—	260,000
Total (Construction)	16,680,000	40,229,000
Visual arts program	386,000	500,000
Consultants' fees	1,157,000	2,793,000
Equipment and furnishings	—	1,728,000
Miscellaneous (municipal services, site supervision, special consultants, etc.)	—	1,176,000
	$ 18,223,000	$ 46,426,000

Estimates of the cost of the work were communicated by the Department of Public Works to the Treasury Board as follows:

June 1964	$ 18,223,000
July 1965	26,335,000
February 1966	29,972,000
June 1966	43,027,000
October 1968	46,426,000

The major portion of the initial estimate was $16,680,000 for the construction of the complex, including an underground garage. By October 1968 this had risen to $40,229,000. The increase of $23,549,000 occurred during the several phases of construction, as follows:

PHASE I. In January 1965 a contract was awarded in the amount of $1,283,000 for excavation, shoring and bridge diversion at the site on Confederation Square recommended by the National Capital Commission. The primary purpose of this contract was to get the excavation under way so that the actual site conditions, known to be poor because of shattered and faulted rock with seams of mud, could be determined and reflected in the design of the main structure. This contract was completed in 1965 at a cost of $1,453,000. The additional cost of $170,000 was accounted for by a number of items, including the

construction of a waterproof retaining wall on the Rideau Canal side of the site, the provision of a traffic underpass below the bridge diversion road, and excavation to a greater extent than had been estimated.

PHASE II. In June 1965 a contract was awarded in the amount of $1,050,000 for the construction of a portion of the garage, a new permanent approach deck for the Mackenzie King Bridge, and the partial demolition and removal of the temporary diversion constructed under the Phase I contract. The construction of the garage was commenced at this stage in order to provide a working area for the construction of the building complex. The final cost of this work, completed early in 1966, was $1,730,000. The increase of $680,000 was accounted for by a substantial number of extra work requirements. In order to expedite the completion of the overall project, some rock excavation and road work originally intended to be carried out under Phase III of the project was performed as an extra to the Phase II contract at a cost of $185,000. Another large extra involved $100,000 for a temporary heating system to protect a portion of the work against frost heave. Modifications costing $141,000 were made to the foundation footings of the Mackenzie King Bridge so that a structural element could be connected to it.

PHASE II-A. In August 1966 a contract was awarded in the amount of $515,000 for the provision of a tunnel access to the parking garage extending beneath Elgin Street to the lower garage level. The final cost was $592,000.

PHASE III. The estimate of overall cost submitted to the Treasury Board in June 1964 included an amount of $12,880,000 for the construction of the main building. By February 1966, when the consulting architects had essentially completed their design for this major element of the project, their estimate had risen to $22,500,000. However, when tenders were received in May 1966 from five of the six companies invited to tender on a prequalification basis, they ranged from $31,848,000 to $35,397,000. The Department of Public Works felt that this reflected a realistic appraisal of what would be required to build the complex and that the difference of $9,348,000 between the consultants' estimate and the lowest tender could be attributed primarily to under-estimating by the consultants; that nothing would be gained by another tender call. Accordingly a contract in the amount of $31,848,000 was awarded in June 1966. On November 7, 1968 the House of Commons Standing Committee on Broadcasting, Films and Assistance to the Arts was informed that the final amount which would be payable under the contract had risen to $36,140,000. Reference was made to many extras. A major amount, $1,193,000, stemmed from the foundation conditions. Phase III included the balance of the excavation work, and overruns in estimated quantities affected the scheduling of the rest of the project in terms of heating and subcontractors' operations. Another large additional amount was $1,390,000 arising from many change orders giving effect to differences from what had been indicated in the initial plans, in order to make certain that there were no inconsistencies between the mechanical, electrical and structural elements of the contract.

The visual arts program, for which $386,000 was included in the original estimate was to embellish the building through sculpture, tapestry, murals, etc. Although the plan was to allocate 3% of the capital cost to embellishment, the escalation of the capital cost caused the Treasury Board to place a limit of $500,000 on the budget for the purchase or commissioning of works of art. This amount is included in the estimated final cost of the project.

The remaining item of the original cost estimate was $1,157,000 for the services of the firm of architects which was engaged in 1964 to design, prepare working drawings and specifications, and supervise construction of the National Arts Centre. As fees are based on percentages of the actual cost of construction of the Centre and the associated garage, and the cost of works of visual art commissioned through the consultants, fees based on the final estimated cost of the project rose to $2,793,000 by October 1968. This amount includes a payment of $44,000 made during the 1965-66 fiscal year for work performed but not used (see our 1966 Report, paragraph 147, item 11).

175. *Construction and financing of wharf facilities for exclusive use of private interests, Wolf Cove, Nfld.* In last year's Report (paragraph 138) reference was made to an instance where the Department of Public Works had agreed to design, construct and finance wharf facilities for the exclusive use of a Newfoundland company. The company agreed to repay the cost of construction, with interest, over a period of years. We pointed out that the information presented in the Estimates implied that the facilities were to be constructed and owned by Canada in the normal manner; that in our view the Estimates should have disclosed that the wharf was being built for the sole use of private interests who are to repay the cost to the Crown over a 25-year period, with interest, after which title passes to them.

A similar case has since come to attention. In 1966 a Newfoundland mining company sought to have the Department of Public Works construct a wharf at Wolf Cove over which it could ship its copper concentrates. The Department informed the company that as public requirements for wharf facilities were already being met by structures maintained by the Department at two nearby communities, suitable cost-recovery arrangements would be necessary. In November 1966 an agreement was signed under which the Department agreed to construct the required facilities at an estimated cost of $285,000. Among other things, the company agreed to pay the full cost of construction, with interest at the rate of 5⅞% per annum over a 15-year period. Title is not to vest in the company until full payment has been received.

Preliminary costs of $5,200 were incurred by the Department in the fiscal year ended March 31, 1967. In March 1967 a construction contract was awarded which has been completed at a cost of $282,000, of which $246,000 had been paid by March 31, 1968. Therefore the capital sum involved is $287,000.

As was the case in the instance reported last year, the information appearing in the Estimates gave no indication that this wharf was being built for the exclusive use of a company which has been permitted a period of 15 years in which to repay the cost incurred by the Crown.

176. *Cost of maximum security livestock quarantine station, Grosse Ile, Que.* Early in 1965 the Department of Agriculture obtained Executive approval for the establishment of a maximum security livestock quarantine station to be located at Grosse Ile, an island in the St. Lawrence River about 40 miles downstream from Quebec City, at an estimated cost of $270,000. The station was to differ from existing ones because it

was to receive cattle from continental Europe rather than the United Kingdom, which would involve longer periods of quarantine under much more stringent conditions.

The Department of Public Works accepted responsibility for the construction of the station. As there was an urgent need to have it completed by October 1, 1965, only six months remained to obtain site information and detailed requirements, to prepare the plans and specifications, and to construct the facilities. It seemed evident that the usual procedures, including the calling of public tenders, could not be followed because of the time involved. Accordingly, tenders were invited for the shell of the main barn, the intention being that while it was being constructed the detailed requirements for it and the other buildings which would comprise the station, and the necessary services, would be obtained. As a result, a contract in the amount of $79,000 was awarded in July 1965 for the construction of the basic structure, with concrete foundations and floor slab only.

In November 1965 Treasury Board approval was obtained to amend the contract price to $212,000 to provide for the necessary electrical and mechanical work and barn equipment, as well as an additional unanticipated expense of $52,000 for gravel backfill. In April 1966, after the work had been completed, the Board approved a further amendment of the contract price, to $536,000, to cover changes and additional requirements. The final payment to the contractor during the current year brought the cost to $537,000.

In its approach to the Treasury Board in 1966 for *ex post facto* approval of costs for work already completed, the Department undertook to make a full investigation of why an estimate of the items involved was not reported to the Board for prior approval in principle. In due course the Department reported that a shortening of procedures in order to meet as closely as possible the emergency target date required by the Department of Agriculture had resulted in administrative and technical errors in judgment. The Department was satisfied, however, that the prices charged by the contractor were fair and reasonable.

In 1966 the Department of Agriculture requested the Department to arrange for the construction of facilities which would double the capacity of the quarantine station. Payment under this contract, which did not include provision for control building facilities such as were required under the earlier contract, was completed during the year under review, the final cost being $361,000. In this instance tenders were called by public advertisement.

177. *Consultants' fees in respect of deferred project, Toronto, Ont.* In 1958 consideration was being given to the construction of a large addition to the City Delivery Building of the Post Office Department in Toronto in order that it might serve as the main postal terminal for the City. The Post Office Department advised the Department of Public Works that before detailed planning for this building could be undertaken it would be necessary to make a complete study and to design a mechanical installation capable of handling a constantly increasing flow of mail. Accordingly, in 1959 engineering consultants were retained for this purpose.

In 1961 two firms were engaged to work in association as consulting architects for the preparation of plans and specifications and to supervise construction of the proposed addition and alterations to the existing building. When initial preliminary reports received from them indicated that the proposal would cost in excess of $60 million, they were directed to re-study the project and submit a more economical design. In 1962 they submitted a new proposal acceptable to the Post Office Department in terms of areas of accommodation and the preliminary estimate was reduced to $42 million.

By 1963 it had become apparent to the Department of Public Works that the consulting services should be carried out through a single organization. One of the two firms that had been engaged in 1961 withdrew from the commission and the engineers retained in 1959 were made responsible to the remaining firm. In 1964 the services of these engineers were terminated and the consultants were permitted to retain another firm of consulting engineers to undertake statistical analyses and computer programming to determine design requirements and to complete preliminary design.

The engineering studies made it apparent that the original proposal to build the new terminal as an addition to the existing City Delivery Building would produce facilities too restricted to provide the best mechanical equipment layouts. The result was that early in 1966 the Treasury Board gave approval in principle to the demolition of the existing building and the erection of a completely new structure on land occupied by the existing building and adjacent Crown-owned land.

The architects submitted their preliminary design studies in December 1966. In April 1967 the Treasury Board approved of the preparation of contract documents for the construction of the terminal, including provision of structural requirements for a future high-rise tower over the terminal to provide centralized office space for Federal Government departments in Toronto. An estimated cost of $65,280,000 was involved, including $18,621,000 for the mail handling systems.

When it had been established several years earlier that the site was the proper location for the postal terminal, local bodies with an interest in the development of the area were informed of plans. A report issued by the City of Toronto Planning Board in October 1962 showed the Crown-owned property as the site of the new terminal. Nevertheless, by September 1967, when the production of working drawings was 20% to 30% complete, it became apparent that there was serious opposition to the siting of the terminal which would not be in harmony with development plans of other agencies for the Toronto waterfront area. As a result, the Department of Public Works was informed by the Post Office Department that:

> From a subsequent discussion between senior officers of our Departments there is every possibility that this may require us to start planning for Toronto all over again. Even if some plan can be developed for utilizing parts of our planning to date on an alternative site, considerable changes will have to be made in the basic plans for the building. In view of these possibilities I regretfully suggest that work which is now in progress should be stopped until a reassessment is made and a firm plan for future action is determined.

The consultants were instructed to stop work on the project and in November 1967 the decision not to proceed with the terminal plans was made official. Prior to the year-end, final settlement was made with the consultants. The total cost of all consulting services involved since 1959 was $1,600,000. The likelihood that the planning will eventually be used, at least to any significant extent, appears remote.

178. *Cost of unused plans, Ottawa.* In 1962 architects were engaged by the Department of Public Works to (a) design and prepare complete working drawings and specifications and to supervise construction of Phase I of a new building in Ottawa for the National Museum, and (b) design and prepare complete working drawings and specifications for Phase II of the same structure. Phase I was to provide accommodation for the Human History Branch, the Canadian War Museum and part of the Natural History Branch. Phase II was to accommodate the remainder of the Natural History Branch.

Planning was directed initially towards completion of Phase I in time for a public opening by July 1, 1967. By mid-1964, however, when plans were almost ready to be sent to tender, the Ottawa construction program for the next two or three years was cut back. The Museum building was a casualty of this decision, priority being given to the construction of the National Arts Centre.

By 1966 the Directors of the Museum, who had not been personally responsible for the projected requirements to which the new building was designed, had become increasingly doubtful about its suitability for modern concepts of museum operations. They also felt that the space planned would be inadequate by the time the building could be completed. Accordingly, a consultant on urban affairs was retained to prepare a report on likely space requirements over the next 25 to 50 years, having particular regard to the adequacy of the proposed site and its relation to urban development, traffic flow and other pertinent considerations. The consultant concluded that construction of the Museum building, designed for a specific site, could not be justified because it would be ill-suited to the objectives of the Museum as presently envisaged and it would be wasteful to take up valuable downtown space for research and storage facilities. Furthermore, the whole concept of the surrounding area had been changed by the construction of the National Arts Centre. A much larger suburban site was recommended for other than public display sections.

Early in 1968, although no definite action had been taken relative to a proposed campus concept for the Museum or the selection of a possible site, it was apparent that it would not be built on the basis of the planning commissioned in 1962. Accordingly Treasury Board authority was sought to make a final payment to the architects for their services. If tenders had been called, they would have been entitled at this point to three-fifths of the full fee which in turn would have been based on the cost of the work as fixed by the lowest tender. In the absence of a tender it was necessary to establish an equitable cost figure. Although the architects arrived at an estimate of $28,370,000 based on a detailed estimate and using cost figures obtained from recent prices received on a comparable Ottawa building, they eventually agreed to an estimate of $25 million made by the Department of Public Works in February 1966. This estab

lished the fee entitlement at $717,000. Extra design fees of $23,000 and incidental costs of $13,000 allowed under the contract brought the total cost of the architects' services for the abandoned Museum concept to $753,000.

179. *Additional costs due to construction delays, Cowansville, Que.* In 1963 the Department of Public Works, on behalf of the Canadian Penitentiary Service, awarded a contract in the amount of $5,986,000 for the second phase of construction of a medium security institution at Cowansville.

By the end of 1967-68 the cost had reached $7,168,000. Included was $261,000 (of which $241,000 was paid during the year) in settlement of a claim for $571,000 submitted by the contractor in respect of delays which he contended had been caused by revisions made to the plans and specifications as work progressed. Following a detailed examination of the circumstances, the Department concluded that a delay of six months could be attributed in the main to significant design changes, there having been a dearth of precedents in many planning areas because large-scale penitentiary projects had not been undertaken in Canada for some years. The settlement compensated the contractor and three of his subcontractors for additional job overhead expense, increases in wage rates and material costs, loss of efficiency, a return to the site to check on the functioning of security hardware, and extended operation of the heating plant.

Payments to the contractor since the end of the year have included the $20,000 previously withheld from the settlement and $15,800 of an approved addition thereto of $19,300. This additional claim was accepted when a subcontractor was able to provide documentation which substantiated the costs he had incurred on certain items for which no detailed support had been available when the claim was first considered.

180. *Additional costs due to construction delays, Ottawa.* Tenders for the construction of a headquarters building in Ottawa for the Department of National Health and Welfare were received by the Department of Public Works in 1961. The lowest bid, $7,225,000, was considered by the Treasury Board to be too high. Negotiations by the Department of Public Works with the low tenderer were successful in reducing the contract price to $6,713,000, which was approved by the Board.

The final contract payment, made in February 1968, brought the cost to $7,007,000, the increase being largely attributable to foundation changes, additional excavation and improvements in the podium area. At the same time the contractor was paid $229,000 in settlement of a delay claim of $517,000 thereby raising the actual construction cost to $7,236,000.

The claim settlement took into account job overhead expense for 53 weeks, as a consequence of delays associated with the location of a storm sewer being incorrectly shown on the contract drawings, redesign of the foundations, production of mechanical drawings relative to relocation of the cafeteria, extension of the work into a strike period, and production of partition layouts. The original completion date had been February 19, 1963 but the building was not accepted until July 17, 1964 and, in recogni-

tion of the carry-over into another season of construction, extra costs for winter heating, snow removal and maintenance of temporary roads were allowed. Similarly it was acknowledged that the prolonging of the contract had brought it into a period of higher labour rates. Subcontractors' additional costs caused by the delays were also accepted.

In 1964-65 the consulting architects were paid an additional fee of $57,000 for abandoned work and redesign. During 1967 they submitted a further claim for $39,000 in connection with extra expenses which had arisen from the construction delays. Payment in the negotiated amount of $18,000 was made in March 1968.

181. *Cost of unused plans, Cambridge Bay, N.W.T.* In 1965 architects were engaged by the Department of Public Works, on behalf of the then Department of Northern Affairs and National Resources, to design and prepare working drawings and specifications and to subsequently supervise the construction of a 14-room school and a 200-bed hostel at Cambridge Bay. The estimated construction cost was $3,010,000.

Between the preparation of the original project brief and the completion of working drawings there were changes in requirements, including provision for ancillary structures, which would obviously affect the cost. By December 1965 the Department of Public Works arrived at a cost estimate of $4,500,000. In April 1966 the consultants produced a final estimate of $5,297,000. However, when tenders were received in August 1966 the lowest bid was $6,948,000. The substantial difference between bid and estimate was attributed to a lack of knowledge on the part of the Department of the cost of building a large school and hostel complex in such a remote locality, compounded by the fact that tenders were called at a time when contractors were uninterested in such a project since work was easily obtainable in more settled areas.

The project was abandoned, not only because of the unexpectedly high cost but also as a result of a review of policy which led to a decision to erect a number of smaller schools at various locations. A consequence was the construction of a 5-room school at Cambridge Bay, substantially completed in 1967 at a cost of $624,000. Since the original concept bore no relation to this structure, none of the design could be used for the smaller school.

During the year a final payment of $54,000 was made to the consultants, bringing to $122,000 the amount paid to them for their services in connection with the abandoned project.

182. *Increased rental due primarily to administrative delays, New Westminster, B.C.* In April 1966 the Department of Public Works issued a tender call for the provision of postal station accommodation at New Westminster on a build-lease basis. Two bidders responded on May 31, 1966, the lower offering to construct the required building in consideration of entry into a lease for fifteen years, with options to renew for two further terms of five years each, at a rental of $10,500 per annum.

During the following six months the lease proposal was communicated to and accepted by the Post Office Department, the preliminary floor plan was revised to the satisfaction of that Department and the lessor, and Executive authority for the leasin

arrangement was obtained. Another eight months elapsed before the Post Office Department's approval of the final drawings was secured, subject to the incorporation of a number of minor changes.

The lessor wrote the Department of Public Works on October 16, 1967, acknowledging receipt two months before of advice as to approval of the working drawings, and indicating that in the interval present-day construction costs had been investigated. His conclusion was that substantial rises in prices and financing costs since the submission of his tender, together with the effecting of changes not envisaged at the outset, which had added slightly to the square footage of the building, made it impossible to proceed with the project at the rental rate contained in his offer. Increase of the annual rental to $15,600 was proposed.

Treasury Board approval of the higher rate was received on January 10, 1968 and occupancy of the newly-constructed premises took place on June 1. Primarily because of administrative delays an additional cost of $76,500 will be incurred over the 15-year term of the lease.

We have been informed by the Department of Public Works that a reasonable lapse of time between the advertising for tenders and the completion of working drawings would be about six months but that no legal agreement exists until a lease has been executed.

183. *Additional cost due to construction delays, Jasper National Park, Alta.* In October 1963 the Department of Public Works, on behalf of the then Department of Northern Affairs and National Resources, entered into a contract for the construction of a bridge and approaches at Mile 29.8 of the Jasper-Edmonton Highway. The amount of the contract, to be completed by June 30, 1964, was $204,000. The final cost of the work tendered, including supplementary requirements and variations from tender quantities, was $235,000. During 1967-68, however, the contractor was paid an additional amount of $92,000 in respect of a claim based primarily on delays in his work following a flash flood in June 1964. The actual cost of the project was therefore $327,000 subject to a further contingent expense of $19,000.

The flash flood on June 7, 1964 occurred when the contract was well advanced. It caused extensive damage to the channel dykes and rip-rap and the east abutment was undermined, causing it to tilt forward. The contractor contended that delays by the Department of Public Works in making decisions with respect to corrective measures and the denial of the use of another source of borrow material held up his operations in the various phases of work and delayed completion of the contract until November 1965. He claimed extra costs of $150,000. The major part of the settlement of $92,000 is accounted for by two items—enforced idleness of equipment, $50,000, and prolonged supervision and overhead, $23,000.

184. *Additional costs due to construction delays, Matsqui, B.C.* In January 1964 the Department of Public Works, on behalf of the Canadian Penitentiary Service, awarded a contract in the amount of $7,138,000 for the second phase of construction of a correc-

tional institution at Matsqui. A year later, following a tender call, the same contractor was successful in obtaining the contract for the construction of a central heating plant to service the facilities at a price of $766,000.

The final costs of the two contracts were $7,275,000 and $770,000. In addition, the contractor sought compensation of $746,000 for extra costs to which he claimed to have been subjected because of changes in the work and delays beyond his control. During the 1967-68 fiscal year the claim was settled in the amount of $95,000. Of that amount, approximately $54,000, associated with delays, disruptions and remedial work, can be regarded as non-productive in nature.

185. *Cost of unused plans, Toronto, Ont.* In 1965 the Department of Public Works engaged an architect to design, prepare complete working drawings and specifications for, and to subsequently supervise construction of a postal station in Toronto. In addition to meeting the postal need, the two-storey structure, expected to cost about $375,000, was to accommodate area staff of the Canada Emergency Measures Organization and the Emergency Supply Planning Branch of the Department of Defence Production.

In April 1966 the Department of Public Works informed the prospective occupants that the Treasury Board had instructed the Department to defer construction until after 1966-67. At this point the Canada Emergency Measures Organization asked the Department to cancel its requirements in the proposed building, primarily because it regarded the location as unsuitable for its needs. This was followed by a like request from the Emergency Supply Planning Branch.

The Department informed both organizations that the site had been expropriated, that its acquisition for a postal station alone could not have been justified, and that the preliminary plans had been drawn up by the consulting architect. Reconsideration of the request for cancellation was requested. In reply the Canada Emergency Measures Organization stated that the location was no longer the paramount factor, although "it hardly engenders a feeling of business or government operations". What was regarded as a really unacceptable deficiency was that the plans now showed the conference area in the basement rather than on the second floor. It was felt that the nature of the work conducted by the Regional Director was such that conference facilities for senior executives of business, industry and government must be on a working level floor rather than in a basement location. Concern was also expressed about the possibility of excess noise from postal operations, lack of provision for an elevator, and whether the material to be used in the construction would be equal to or better than that provided in the Crown-owned building then occupied by the Regional Director and his staff. The Emergency Supply Planning Branch elected not to make a decision pending clarification of the points raised by the Canada Emergency Measures Organization and the latter's ultimate acceptance or rejection of the proposal.

In covering the points raised the Department of Public Works stated that a common-use lunchroom and conference room had been relocated in the basement as an economy measure; that otherwise considerable first class space would have been vacant. Furthermore, it was not usual practice to install elevators in two-storey buildings

Nevertheless, firm cancellation requests were received from both organizations in November 1966.

In January 1967 the Department was authorized to proceed with the construction of a single-storey postal station, deleting the requirements for the proposed other occupants, and the architect was instructed to prepare plans and specifications for a new building on that basis. During the year he was paid $4,000 with respect to his preliminary work on the original concept. A more important consequence will emerge, however, if the site cost, in relation to that of the building being constructed at a cost of $234,000, is considerably higher than is normally the case. This cannot be determined until the amount of compensation for the expropriated property is resolved by the Exchequer Court.

186. *Costs of supervision of race track betting not recovered by the R.C.M.P.* Section 178(3) of the Criminal Code, *1953-54, c.51,* provides that no pari-mutuel system of betting shall be used upon any race course unless the system has been approved by and its operation is carried on under the supervision of an officer appointed by the Minister of Agriculture, at the expense of the associations involved.

In our 1967 Report (paragraph 150) we pointed out that, although in general the supervisory work is carried out by members of the Royal Canadian Mounted Police, the charges by the Force to the Department of Agriculture for its services did not provide for the recovery of all cost elements.

Billings by the Force for services rendered during the current year were on the same basis as in previous years but the Department and the Force have agreed upon a billing formula which will enable the Force to recover all costs involved in its race track supervision services commencing April 1, 1968.

187. *Cost of abandoned Welland Canal tunnel projects.* On June 1, 1965 The St. Lawrence Seaway Authority, with the approval of the Treasury Board, entered into an agreement with the Department of Highways of Ontario to contribute one-third of the costs incurred by the Department in the construction of five highway tunnels under the Welland Canal at St. Catharines, Thorold, Allanburg, Welland and Port Colborne. These highway tunnels were required under the original program to twin the Welland Canal.

In November 1965 the Authority recommended that a section of the Canal between Port Robinson and Rameys Bend should be relocated in order to straighten the channel and by-pass the City of Welland. This proposal was accepted and construction commenced in 1967. Consequently the proposed tunnel under the present Canal at Welland is no longer required.

In May 1966 a further recommendation was made by the Authority for relocation of the section of the Canal between Thorold and Lake Ontario. This proposal is still under study but in the meantime the Authority has been authorized to expropriate sufficient land to provide for the development. If this proposed relocation is authorized the tunnel originally planned at St. Catharines will not be required.

Because the abandonment of these two tunnel projects stemmed from a modification in Seaway planning, the Authority, with Treasury Board approval, has reimbursed the Department of Highways for the full amount of the engineering and preliminary construction costs of these two projects totalling $1,277,000.

188. *Grant to assist a cultural centre which was not completed.* A non-profit company incorporated to operate a cultural centre in the old Stock Exchange Building in Montreal received a grant of $100,000 in August 1967 from the Department of the Secretary of State to help meet the capital costs of converting the building. The cultural centre was to include two theatres, one French and one English, an exhibition gallery, a book and record shop and other amenities.

The company also received a grant of $30,000 from the Centennial Commission to assist in the production of a play during Centennial Year. The play was to have had its première at the official opening of the centre which was to have taken place on December 6, 1967 but the performance was cancelled when the centre failed to open.

The local support which was being counted upon, in the form of donations from the private sector, fell short of the amount required to complete the project. Consequently, the company became insolvent and the project was abandoned. An official of the company informed the Department that prospects of salvage were negligible, although attempts were being made to recreate the centre in collaboration with one or more Montreal universities.

189. *Provision of navigational aids without charge to users.* In 1958 the Treasury Board approved proposals of the Department of Transport for the purchase and operation of chains of radio aids to marine navigation on Canada's east coast. However, the Board expressed concern with the general financial implications of providing these navigational aids as a public service, particularly in respect of additional aids which might result in more economical operations for the users. Accordingly, the Board directed the Department to review the policy of providing, as a public service without charge, new navigational aids for both marine and civil air operations and to give consideration to the possibility and desirability of introducing user charges for such services. The Board indicated that it expected the results of the review to be submitted before further proposals for the extension of the marine navigational aids program were considered.

In 1960 the Department obtained Treasury Board approval in principle for the relocation of certain navigational electronic chains. At that time the Board again expressed concern about the provision and operation of all navigational aids as a public service and reminded the Department of the review which it had directed be made. Again, in 1962, the Board asked about the progress of the study and what conclusions had been reached regarding the feasibility of applying user charges.

These requests by the Board for a report have not been met and since 1962 the Board does not appear to have pressed the matter when approving of additional extensions to navigational aids.

The Royal Commission on Government Organization recommended that:

> Except where the Governor in Council decides otherwise, charges be made for all services rendered to the public and the amounts thereof be so established as to recover the full cost to the government of the service supplied.

Based on this recommendation, government policy now is that

> it should be departmental policy wherever economically and administratively feasible to charge for all goods supplied or services rendered to the public, including those now supplied free, unless there are provisions for specific exemption.

The Department's investment in electronic navigational aids for marine services is estimated at about $7 million and its estimated annual operating costs are $1.1 million.

If it is not regarded by the Department of Transport as economically or administratively feasible to introduce user charges in connection with electronic navigational aids services, the earlier Executive interest in the subject should lead the Department to approach the same authority for specific exemption from the application of the general policy.

190. *Scale of fees, steamship inspections.* The Canada Shipping Act, *R.S. c.29,* provides that the Governor in Council may, from time to time, fix a fee to be paid by the owner of every Canadian ship that is required to have a certificate of inspection or a Load Line Certificate under the Act. With like authority, regulations may be issued: for the establishment of a scale of fees for the examination of plans of ships, their machinery and equipment; for inspection of steamships, their machinery and equipment during construction; for assigning and marking load lines; for the testing of material; and for such other examinations and inspections under the provisions of the Act relating to "Safety" as may be deemed fit.

The present scale of fees for the inspection of steamships and for the examination of plans of ships and their machinery and equipment, etc., has remained largely unchanged since 1954 when scales of fees previously in effect were revoked. However, many of the rates were not increased at that time and some have been the same since 1944.

For the fiscal year 1955-56, the first full year after the 1954 revision, the revenue of the Steamship Inspection Service amounted to $161,000, or 24% of the direct outlay of the Service for the year, $676,000. In 1967-68 revenue was $255,000, or 13% of direct costs of $1,994,000.

The Department of Transport has been giving detailed consideration to the advisability of fee increases and expects to be in a position to seek authority for an increased scale during the 1968-69 fiscal year. We understand that what will be proposed is unlikely to do more than restore the relationship between direct expense and revenue which existed in 1955-56.

191. *Year-end transfer of funds to National Harbours Board.* In February 1968 the Department of Transport was authorized by the Treasury Board to enter into an agreement with the National Harbours Board for sharing in the cost of an extension to

a wharf at Saint John, N.B. The cost to the Department was to be $860,000, or approximately 50% of the amount involved in a contract for the extension entered into by the National Harbours Board. The full $860,000 was paid in advance by the Department on April 2, 1968 and charged to its Marine Services "Construction" appropriation for 1967-68 as had been authorized by the Treasury Board.

The exchange of letters prior to March 1968 between the Department of Transport and the National Harbours Board did not indicate that it was intended that the Department make payment in advance of the work being performed. Furthermore, there was no apparent reason for the payment other than the impending lapsing of the appropriation at March 31, 1968. During March, however, after the propriety of the proposed payment had been questioned by the Comptroller of the Treasury, further correspondence recorded the understanding that advance payment would be made to the Board in return for which it could arrange construction.

Obviously, the transfer of $860,000 to the Board was a means whereby an unused balance of an appropriation which would have lapsed at the end of the fiscal year remained available for expenditure in the following fiscal year. Such action is contrary to the interests of Parliament because it reduces dependence on annual grants of Supply.

192. *Cost of Communications Satellite Ground Station, Mill Village, N.S.* In last year's Report (paragraph 160) reference was made to the cost, in excess of $11.7 million to March 31, 1967, incurred in the establishment of a Communications Satellite Ground Station at Mill Village. We pointed out that the estimated cost of the Station, based on first approximations, had been expected to be between $3.6 million and $5.5 million depending on the amount of development work required and the degree of versatility built into it. During the year the net result of a number of accounting adjustments and further small outlays was a reduction to $11.6 million in the recorded cost of the Station.

Our 1967 review focused attention on four contracts which together accounted for over $10 million of the total cost. The major contract provided for project management, systems engineering and the supply of equipment and field engineering for the Station. It called for a lump sum price for project management, payment of fixed per diem rates with respect to the services of professional and technical staff, and cost plus a fee based on cost for the supplying of equipment. Costs under this contract to March 31, 1968, following adjustment of previous years' expenditure and a further small payment during the year, amounted to $8,433,000 compared with an original estimate of $5,138,000.

We pointed out that the excess of cost over estimate was undoubtedly due in some degree to the rapidly changing technology involved which bordered on, and in some cases went beyond, "the state of the art"; that in addition problems of control were created when the capabilities of the Station, which originally had been directed primarily towards an experimental space program, were expanded to meet commercial requirements. We did, however, regard the lack of cost control permitted by both the nature of the cost-plus contract and administrative arrangements as having contributed to the excess of costs over the estimate.

During the year we established that of the total increase of about $3.3 million over the original estimate, approximately $1.6 million related to the original scope of the work, while the balance of $1.7 million was accounted for by the decision to make the Station available for commercial operations. During discussions of the increase in the cost of the work as originally contemplated with officials of the contractor, they explained that all that could possibly have resulted from the study contract which had preceded the implementation contract was a somewhat general plan of approach to the contract because of rapid technological developments and the inability to draw on the experience of others in the infant field of satellite stations. In their view the original cost estimate of $5,138,000 had been a highly speculative one because it was necessary to develop detailed specifications for components of the system after the contract was signed.

193. *Removal of explosives from sunken vessel.* In October 1955 a vessel carrying explosives sank in navigable water in the vicinity of Ile d'Orleans in the St. Lawrence River, after colliding with another vessel.

Although the sunken vessel was not a hazard to navigation, the Department of Transport was informed at the time by an explosives expert that a portion of the cargo, consisting of gelatin dynamite, presented a possible hazard if not retrieved and destroyed. The Department of Justice was consulted and advised that the owner of the vessel could be compelled to remove the vessel as well as the cargo on board pursuant to the provisions of the Navigable Waters Protection Act, *R.S. c.193;* accordingly, the owner of the vessel was requested to remove both the wreck and the cargo. He was informed that if it became necessary for the Department to take such action he would be held liable for the cost in accordance with a provision of the same Act.

In 1958, as the owner had failed to act, the Department entered into a contract or the removal of the gelatin dynamite, which was completed at a cost of $98,000. Vhen demands on the owners of both the vessel and the cargo for payment of this mount were not met, action for recovery was taken against them in the Exchequer Court of Canada in 1961. In November 1967 the action was dismissed, with costs of 3,000 being assessed against the Department. These court costs and the $98,000 expended 1 1958 must be regarded as non-productive outlays.

The basic weakness in the Crown's case appears to have been the failure of the Department to obtain an opinion in 1958, at the time of their removal, that the xplosives were at that time a hazard to navigation.

194. *Lengthy delay in negotiating lease renewal.* In 1947 a Crown-owned wharf t Louisburg, N.S., was rebuilt at a cost of $246,000. Repairs and alterations have since een made at a cost of $51,000.

With effect from September 1, 1951, over 75% of the wharf's area was leased to sea-products company for a ten-year term at a rental of $345 per annum. The establishment of a low rental in relation to the value of the facilities appears to have been measure to assist in the development of a fishing industry in the Louisburg area.

Although the lease expired on August 31, 1961 and the company continued its occupancy of the wharf, entry into a renewal lease for a further term of ten years commencing on September 1, 1961 was not authorized until December 1967. At that time the annual rental was raised to $2,500 but only with effect from September 1, 1967.

We have been informed by the Department of Transport that the long delay in negotiating the lease renewal was due to a number of unusual circumstances, including: (1) the involvement of the Province of Nova Scotia in the original establishment of the facility; (2) the need to maintain liaison with the Department of Public Works with regard to the maintenance of the wharf, and the possibility of its sale to the lessee; (3) a delay in appraising the property to establish a fair rental due to a heavy schedule of appraisal work and lack of qualified personnel; and (4) the unwillingness of the lessee to accept an increase in rental or to negotiate the purchase of the property.

In 1965 consideration was given to the setting of a higher rental with effect from September 1, 1961. The departmental law officers advised, however, that if the Department had accepted the original rental unconditionally since 1961, it was precluded from raising the rental prior to 1965 unless the lessee consented. As the negotiation of renewal leases subsequent to the expiry of terms earlier demised is not uncommon, we discussed with the Department the possibility that the interests of the Crown could be protected by the presence in all indentures of lease with renewal options of a clause stipulating that rental payments accepted after the expiry of the original term would be conditional only. We have since been informed that action is being taken to incorporate such a clause in future leases with renewal provisions.

195. *Additional costs due to contract cancellation, Trois-Rivières, Que.* In our 1966 Report reference was made to a 1960 contract for the construction of a runway, a parking area, a connecting taxiway and an access road at the Trois-Rivières airport. The circumstances under which the contract was taken out of the hands of the original contractor and given to the second lowest tenderer to complete were described. It was stated that the original contractor had sued for work completed up to the time he was ordered off the site and for damages sustained as a result of the cancellation of his contract; that countersuit had been brought against him for the additional costs incurred in having the contract completed by another contractor; and that the Exchequer Court of Canada had ruled in favour of the contractor in respect of both suit and countersuit, awarding him an additional $29,000 for work performed and $4,500 in damages.

As indicated in our 1967 Report (paragraph 155) the Crown appealed the judgment of the Exchequer Court and in June 1967 the Supreme Court of Canada maintained the appeal and the Crown's cross-demand. In November 1967 the Exchequer Court awarded the Crown $130,000 with respect to the cross-demand.

The Department had previously endeavoured to invoke the performance bond provided by the first contractor but the bonding company had refused to accept any responsibility, contending that the bond became invalid when, without prior reference to it, the contract was cancelled by the Department of Transport and the completion of the work entrusted to another contractor. As stated in our 1967 Report, the Department

of Justice, subsequent to the rendering of judgment by the Supreme Court, instituted court proceedings against the bonding company. As the judgment of $130,000 has not been recovered from the original contractor, who made an assignment in bankruptcy in December 1967, this action is continuing.

196. *Cost of terminating lease for telecommunication facilities.* In 1962 the Department of Transport entered into an agreement with a telecommunications company for the provision of leased equipment for seven semi-automatic relay centres across Canada with estimated in-service dates to occur during the two-year period ended March 1, 1966. In order that the company would be assured of recovering its invested capital, a 10-year lease covering each centre, effective with the acceptance of each installation, provided for termination charges for each unexpired month of the term of the lease.

Although six of the seven relay centres were completed by February 1966, the Department encountered problems in connection with the provision of suitable accommodation for the seventh installation at Goose Bay, Labrador. The Department's proposal in 1963 for a new operations building, which was allowed to stand by the Treasury Board pending investigation of the possibility of using existing Department of National Defence accommodation at the site, was not approved until September 1964. Further delay resulted in May 1965 from a proposal that all Department of Transport services at Goose Bay be consolidated within a new air terminal building. Planning to this end was eventually abandoned in the knowledge that the withdrawal of the Department of National Defence from the site would make accommodation available. However, this withdrawal was not confirmed and space did not become available until November 1966.

At about the same time the Department of Transport undertook a review of its communications commitment in this area, taking into consideration, among other matters, the proposed withdrawal of certain United States Air Force and Royal Canadian Air Force personnel and the phasing out of Goose Bay as a Department of National Defence air base. This review resulted in a recommendation that the plans for the installation of the semi-automatic relay system at Goose Bay be discontinued and that existing equipment, with some adjustments, continue to be used.

Following notification in February 1967 of the Department's decision not to proceed with the installation at Goose Bay, the company claimed $566,000 for costs incurred. This amount was paid during the year and charged to the Department's Vote 30, Air Services—Administration, Operation and Maintenance.

The six relay centres which were completed between 1962 and 1966 are to be converted and upgraded to a fully automatic system in the near future. This prospective changeover will involve payment of substantial termination charges.

197. *Additional cost due to construction delay, Malton, Ont.* In 1961 the Department of Transport entered into a contract for the construction of Aeroquay No. 1 at the Toronto International Airport at a price of $22,018,000. Additional requirements

and change orders brought the cost of the work, accepted by the Department in 196 to $27,156,000.

In August 1963 the contractor informed the Department that he had suffered loss to that point of $1,277,000 as a result of additional overhead due to constructio delays caused by events beyond his control. An audit of his records as at March 3 1964 substantiated a loss of $1,480,000. Still later he claimed that a direct loss c $1,818,000 was indicated.

Following a prolonged investigation, the Treasury Board authorized proceedin towards a settlement on the basis that the Department had contributed to a delay c three months out of a total delay period of 18 months. Factors involved were: a sto order issued in the area of the work involving a change in the United States preclearanc procedures, which not only delayed the work but also required alterations to work alread completed; a delayed decision respecting gate allocations, with a resultant extension c the time required to complete the ramp operational rooms; and a delay in contractin for the baggage-handling equipment due to a patent rights situation. Many setbac and delays which were beyond the control of both the contractor and the Departmen such as those resulting from a series of strikes, were not regarded as warrantin compensation.

During the year the contractor was paid $339,000 in full settlement of his clain Also, on a similar basis a subcontractor's claim for an additional $123,000 was settle for $20,000. These two payments resulted in a final cost of $27,515,000 for Aeroquay No.

198. *Additional cost attributed to unavailability of construction material.* In Ju 1966 the Department of Transport entered into a contract for the construction of tw piers for range lights on Lake St. Peter in the St. Lawrence River at a price of $343,00 Additional work, which could not be estimated accurately prior to the award of the co tract, was required at a cost of $37,000, increasing the amount payable under the co tract to $380,000.

The Department had agreed to provide the contractor with the timber piles require for the foundations and cofferdams of the two piers. The piles for the first pier we delivered on schedule but those for the second pier arrived approximately two wee late because of a railroad strike.

The contractor submitted a claim of $154,000 to the Department for the extra cos incurred when suspension of part of the work due to the delayed delivery had result in equipment lying idle, the uneconomic use of manpower, and a revised constructic schedule. Work had to be undertaken later than anticipated in the autumn of 1966 wh deteriorating weather conditions required extended and increased use of equipment a manpower in addition to provision for winter heating and protection.

The Department established that the contractor had sustained an overall loss $105,000 on the contract of which $8,000 was regarded as the responsibility of the owne of a vessel which had passed the construction site at excessive speed, damaging a flooding the cofferdam. The balance of $97,000 was paid during the year, bringing t total cost of the two piers to $477,000.

The four tenders received for this contract had ranged from the accepted bid of $343,000 to one of $618,000, with the second lowest being in the amount of $487,000. The loss which the contractor might have suffered in any case, because of his comparatively low bid, could not be established.

199. *Custom made electronic tubes not required.* In December 1966 the Department of Transport issued a purchase order for 30 electronic tubes to cost $12,000. After 18 tubes had been received it was discovered that due to a clerical error a type of tube for which there was no demand within the Department had been ordered. An attempt to cancel the balance of the order and return the tubes already received for credit was unsuccessful because production of the tubes, expressly for the Department, had been completed by the supplier and there had been no other demand for such tubes since 1962. It is evident, therefore, that the amount of $12,000 paid during the year will have to be written off as a loss.

The tubes actually required by the Department were available at a price of $1.33 each.

200. *Increase in operating subsidy to a marine service due to transfer of mail contract to an air carrier.* During recent years the Post Office Department received representations from various organizations and residents for an improved mail service to numerous settlements along the mainland coast of British Columbia and the west coast of Vancouver Island. Many of these communities were receiving first class mail by air while in some cases other classes of mail were carried by water.

During the year, following negotiations with the airline carrier, the Department with the approval of the Treasury Board initiated four new air services and discontinued three water services. The overall increase in the cost of carrying all classes of mail by air was estimated by the Department at about $2,500 a year.

This estimate, however, did not take into account the fact that one of the marine services to be discontinued was in receipt of a subsidy from the Canadian Maritime Commission (now the Water Transport Committee of the Canadian Transport Commission). As a result of losing its mail contract, in the amount of $9,500 a year, the subsidized marine service requested, and was granted, an increase in its annual subsidy equal to the amount lost through cancellation of the mail contract. Thus a more realistic estimate of the overall increase in cost for the new mail service would have been about $12,000 a year.

The circumstances led the Minister of Transport to request the Post Office Department to discuss proposed changes in mail contracts involving federally-subsidized services with officers of the Water Transport Committee to ensure that the best overall solution is obtained prior to making final decisions. The Post Office Department made no commitment in that regard, stating that it did not leave federally-subsidized services unnecessarily but could not undertake to stay with such services if the people of an area requested a different type of service in keeping with the standards which obtain in more settled parts of the nation.

201. *Cost of unauthorized use of departmental telephone.* In October 1967 th Department of Transport became aware of the irrational behaviour of an employe assigned in July as an ice information officer for the duration of the 1967 Hudson Ba navigation season. With some difficulty he was persuaded to report to Ottawa in mic November for a medical examination which was followed by hospitalization and psychiat ric treatment at Halifax. He was retired on medical grounds in April 1968.

An examination by the Department of long distance telephone charges incurre by the employee at the isolated post from mid-July until his departure in Novembe showed that calls costing $4,900 could not be identified with departmental busines After reducing this amount by $1,700, the value of ten weeks of retirement leave no granted, Treasury Board approval in principle was obtained for inclusion in due cours of the balance of $3,200 in an Estimates item for the deletion of debts and claims. Th Board approved of the release of salary cheques which were being held and paymen of the employee's annuity under the Public Service Superannuation Act without an deductions for the indebtedness.

The Department assured the Treasury Board that measures would be taken control the use of business telephones by Canadian Coast Guard personnel at isolate locations. Based on the circumstances of this case, however, it would seem that th exercising of great care in the selection of employees for unsupervised duties at norther posts would be more to the point. The man concerned, who joined the Departmen in 1958, had been involved, from 1961 to as recently as February 1967, in inciden resulting from intemperance and on one occasion he had been suspended briefly "f insubordination and behaviour unbecoming an officer" while intoxicated.

202. *Cancellation charges resulting from curtailment of vessel construction progra* In March 1966 the Department of Transport obtained Executive approval to proce with a program for the construction of six search and rescue cutters under contrac to be entered into over a three-year period.

The contract for the construction of the first vessel at a cost of $6,660,000, subje to increases or decreases in certain cost elements, was entered into in February 196 Two months later a contract for the performance of "lead yard" services, at a cost $235,000, federal sales tax extra, was awarded to the same company, the lowest bidder both contracts.

After receiving approval from the Department of the principal items of equipme (such as the main machinery and generators requiring lead procurement time, and iten peculiar to the vessels such as the windlass and anchor cables), the contractor w authorized to issue purchase orders to suppliers which would also indicate the Depa ment's intention of purchasing, through shipbuilders yet to be determined, five add tional shipsets at the same price and at intervals corresponding to the projected buildi periods of the other vessels. The aim was to obtain favourable prices through bu purchases.

In 1967 the Department postponed indefinitely its program for the construction the five additional search and rescue cutters because of cutbacks in funds available

capital projects of the Canadian Coast Guard. The contractor was instructed to advise all suppliers that work on the five additional shipsets was to cease immediately.

The Department, realizing that cancellation claims could be substantial, decided to negotiate directly with the suppliers rather than through the contractor. They were requested to submit claims for the additional costs, resulting from the stop-work order, of equipment to be supplied for the first vessel and also with respect to work performed on the other five shipsets.

The claims amounted to $1,644,000. Officers of the Department investigated each claim and when considered necessary visited the premises of suppliers, a number of which were in Europe, to obtain additional details and to make a physical check of material. As a result a number of claims were rejected and others were reduced through negotiation. Prior to the year-end, agreement was reached on all claims and $1,434,000 was established as the total cancellation cost.

Under the lead yard services contract signed in April 1967, the contractor was to provide the shipyards that would be involved in the construction of the five additional vessels with data obtained in a check of the design plans and drawings and in the construction of the first vessel, and to maintain liaison with them. In accordance with the terms of the contract, $141,000 of the fee of $235,000 had been paid by the Department prior to the year-end. The extent to which the contract price will be adjusted as a result of the curtailment of the construction program is not yet known.

203. *Utilization of land in the National Capital Commission Greenbelt.* Over the years the National Capital Commission has acquired at a cost of $41 million approximately 41,500 acres of land bordering Ottawa which is known as the Greenbelt. The land is primarily of an agricultural nature.

In recent years the Department of Agriculture transferred its Animal Research establishment to 4,152 acres of Greenbelt land purchased from the Commission at its cost of approximately $4 million. This transaction was concluded only after the Treasury Board, in 1962, notified the Department of Agriculture and the Department of Public Works, the latter being responsible for the construction of 50 to 60 specialized buildings estimated to cost $30 million, that:

(1) since the land would be used as a site for the Research Branch buildings of the Department of Agriculture, the National Capital Commission was entitled to financial redress;

(2) since the site would be put to permanent use, a leasehold arrangement, even on a long-term basis, did not appear appropriate. Rather, the Commission should be reimbursed approximately $4 million for the cost of the land; and

(3) since the Board had determined that the cost of the buildings should be borne by the Department of Public Works, as specialized buildings within the Ottawa area, this decision should also apply to the cost of the land.

The Department of Agriculture protested to the Treasury Board that it had been negotiating with the Commission for a long-term rental and that reimbursement for the land that the Commission would have acquired in any event represented, ostensibly, a

charge to Canadian agriculture of approximately $4 million for land which it had reaso to believe could be secured at another appropriate location for a quarter of that amount In replying the Treasury Board indicated that it would have been unnecessary expen diture to acquire a less expensive site when Greenbelt land was available.

Against this background a case was noted during the year which runs counter t the foregoing precedent.

After discussions with the National Capital Commission, the R.C.M.P. agreed to long-term lease of about 300 acres of land in the Greenbelt for use as a horse-breedin farm. The National Capital Commission was to be paid an annual rental of $3,675 an reimbursed for its grant in lieu of taxes, then amounting to $800 per annum. Howeve when the R.C.M.P. later learned that this grant was expected to increase to approximatel $10,000 per annum following erection of the proposed buildings, alternative arrangement were investigated. With the approval of the Treasury Board, the Force subsequentl purchased 245 acres of land about 35 miles from Ottawa at a cost of $30,000. The taxe on this property are reported to be $365 per annum and the "best information availabl is that basic tax structure will not change after improvements". Grants in lieu of taxe on this property will be paid by the Municipal Grants Division of the Department c Finance, rather than by the R.C.M.P.

It seems illogical that when a government agency already owns approximately 41,50 acres of land in the Ottawa area, much of which would be suitable for a horse-breedin farm, 245 acres should have to be purchased for an operation which is within the pe mitted uses of Greenbelt property.

204. *Gratuity in lieu of retiring leave.* The Public Service Terms and Conditions c Employment Regulations make provision for retiring leave for the majority of publ servants. This retiring leave is granted by the deputy heads of the departments co cerned and varies according to length of service, the maximum period being 26 weeks.

At the employee's request, a gratuity in lieu of retiring leave may be granted. Th gratuity is calculated by multiplying the number of weeks of retiring leave to whic the employee is entitled by his weekly rate of pay and subtracting therefrom the amou of any immediate annuity he is entitled to under the Public Service Superannuation A for the same period.

As a matter of policy, deputy heads and other public servants appointed by tl Governor in Council have for many years been granted by the Governor in Council c retirement a cash gratuity equal to salary for a stated number of weeks correspondin to that to which they would have been entitled had they been appointed under tl Public Service Employment Act, less the amount of the annuity they were entitl to receive over the same number of weeks.

During 1967-68 there was a change in policy and employees appointed by tl Governor in Council who retired were granted a cash gratuity equal to salary for a state number of weeks corresponding to that to which they would have been entitled had the been appointed under the Public Service Employment Act, but with no deduction of tl amount of the annuity to be received over the same number of weeks.

There is no question of the authority of the Governor in Council to provide for this more generous retiring gratuity and the matter is recorded here only because it represents a change in policy during the year.

205. *Awards under the Pension Act.* Clarification of the Pension Act, *R.S., c.207*, is particularly necessary because the usual checks provided for the protection of the Crown do not operate with respect to it. Subsections (1) and (5) of section 5 of the Pension Act read as follows:

> 5. (1) Subject to the provisions of this Act and of any regulations, the Commission has full and unrestricted power and authority and exclusive jurisdiction to deal with and adjudicate upon all matters and questions relating to the award, increase, decrease, suspension or cancellation of any pension under this Act and to the recovery of any overpayment that may have been made; and effect shall be given by the Department and the Comptroller of the Treasury to the decisions of the Commission.
>
> (5) The Commission shall determine any question of interpretation of this Act and the decision of the Commission on any such question is final.

Not only are the Department of Veterans Affairs and the Comptroller of the Treasury, in fulfilling their functions with respect to the payments of pensions and recovery of overpayments, thus barred from taking their normal part in protecting the Crown but the advice of the Department of Justice is not available in the interpretation of the conflicting provisions of the Act.

In previous Reports we have pointed out that, due to inconsistencies and ambiguities in the Act, it was difficult to determine whether or not awards were in conformity with the provisions of the Act, particularly those awards granted on a discretionary or compassionate basis and to persons in a dependent condition. In paragraph 162 of our 1967 Report we noted that the Public Accounts Committee in its Eighth Report 1964-65 had made recommendations designed to overcome these shortcomings (see Appendix 1, item 23) and that the Minister of Veterans Affairs, in letters to the Chairman on March 3, 1965 and June 21, 1967, had commented on these recommendations of the Committee but the Committee had not yet considered his comments. There was no change in the situation in 1967-68 so there is still difficulty in determining whether or not awards are in conformity with the provisions of the Act.

The Committee appointed in September 1965 to survey the organization and work of the Canadian Pension Commission, including the interpretation by the Commission of such sections of the Pension Act as in the opinion of the Committee should be considered, presented its report to the Minister of Veterans Affairs on March 22, 1968. The Committee's recommendations for the most part were concerned with the provision of greater benefits and no mention was made of the recommendations of the Public Accounts Committee.

206. *War veterans allowances.* In paragraph 163 of our 1967 Report we reviewed comments contained in previous Reports dealing with the administration of the War Veterans Allowance Act, *R.S., c.340*. We again summarized the recommendations of the

Public Accounts Committee in its Eighth Report 1964-65 (see Appendix 1, item 24), which have not yet been implemented, that all cases of deliberate deception in respect of awards under the Act be vigorously prosecuted and that, where the presence of a child is the reason for an award at married rates, the income of the child, unless exempted by the Act, be taken into account in determining the amount of the award. We also reported that letters of March 3, 1965 and June 21, 1967, from the Minister of Veterans Affairs to the Chairman of the Public Accounts Committee setting forth his comments on the recommendations, had still to be considered by the Committee. The situation has remained unchanged.

Our examination during the year disclosed ten more cases of overpayment totalling $11,000, one case accounting for $9,000 due to undisclosed earnings from employment and Unemployment Insurance benefits. In no case was there prosecution to enforce the penalties provided for in the Act and Regulations.

207. *Unrealistic meal charges in departmental hospitals.* In paragraph 164 of our 1967 Report we pointed out that the cost of meals provided to staff and visitors in the Department of Veterans Affairs hospital cafeterias and senior staff dining rooms was considerably in excess of the prices charged for these meals. The charges for full course meals, set in 1952, are breakfast 30 cents, dinner 45 cents, and supper 30 cents in the cafeterias, with an extra 10 cents per meal charged in the senior staff dining rooms where full table service is provided, whereas the average cost per meal was $1.33 according to cost figures produced for the 1965-66 fiscal year. While it is a common practice to subsidize meals in large establishments, the degree of subsidization in the Department's hospitals is extremely high. We concluded by stating that it appeared obvious that a more realistic pricing policy was required.

During the year there was no change in the prices charged for meals although cost figures compiled for 1966-67 show the average cost per meal to have risen to $1.41. The prices being charged are currently under study but any changes in rates will now have to result from consultation with the bargaining agents for the various occupational groups involved.

208. *Federal-provincial shared-cost programs.* Although information regarding Canada's contribution towards each sizable federal-provincial shared-cost program is available in Volume II of the Public Accounts in the details of expenditure of the departments administering the contributions, nowhere is the substantial overall total of federal contributions to shared-cost programs provided on a regular basis. The last published compilation of these costs was a booklet prepared in 1963 by the Federal-Provincial Relations Division of the Department of Finance for the use of members of the Federal-Provincial Continuing Committee on Fiscal and Economic Matters meeting in that year.

In our 1966 and 1967 Reports (paragraph 165 in 1967) we expressed the belief that it would be informative to the House if a detailed summary of the numerous federal-provincial shared-cost programs, which would show the federal share of the costs on an annual and cumulative basis, were more readily available, and suggested that this be

shown as an appendix to the Public Accounts. This suggestion has not yet been considered by the Public Accounts Committee.

In 1967-68 Canada participated with one or more of the provinces in 95 shared-cost programs as follows:

Costs shared with:	
All provinces	21
More than one but not all provinces	41
Only one province	33
	95

The federal expenditures under these programs totalled $1,329 million compared with $1,136 million on 94 programs in 1966-67.

The following is a comparative listing, by departments, of those programs on which the expenditure in this or the preceding year was in excess of $10 million:

	Year ended March 31	
	1968	1967
Agriculture:		
South Saskatchewan River irrigation and power project	$ 5,904,000	$ 11,303,000
Forestry and Rural Development:		
Agricultural and rural development	19,393,000	13,728,000
Manpower and Immigration:		
Technical and vocational training	204,080,000	219,764,000
Municipal winter works incentive	30,314,000	37,473,000
National Health and Welfare:		
Hospital insurance and diagnostic services	467,284,000	396,277,000
Canada Assistance Plan	225,611,000	10,496,000
Health Resources Fund	32,645,000	4,705,000
General health grants	29,485,000	28,501,000
Hospital construction grants	16,360,000	16,381,000
Old age assistance	8,844,000	19,626,000
Disabled persons allowances	7,051,000	15,013,000
Unemployment assistance	5,961,000	143,116,000
Public Works:		
Trans-Canada Highway	64,738,000	81,015,000
Secretary of State:		
Post-secondary education	108,138,000	—
Centennial Commission	10,464,000	18,595,000
Transport:		
Atlantic Development Board—various projects	30,647,000	35,160,000
Other programs	61,714,000	84,667,000
	$ 1,328,633,000	$ 1,135,820,000

The expenditures shown are direct costs only and do not include any administrative expenses incurred by the Federal Government.

The substantial increase in expenditures under the Canada Assistance Plan to $225,611,000 is partially offset by reductions in expenditures on old age assistance, disabled persons allowances and unemployment assistance and reflects the gradual supplanting of the individual assistance programs by the more comprehensive social welfare program provided by the Canada Assistance Plan.

Post-secondary education payments to all provinces totalling $108,138,000 in 1967-68 had no direct counterpart in 1966-67. In addition to these expenditures in 1967-68, there were tax abatements and tax equalization payments relating to post-secondary education totalling $247,580,000 for all provinces. In prior years, contributions towards post-secondary education were made by way of 'university grants' which were paid, except in the case of the Province of Quebec, to the Association of Universities and Colleges of Canada, formerly the Canadian Universities Foundation. These university grants were based on the population of each province. In the case of Quebec, reimbursement prior to 1966-67 was in the form of an increased tax abatement, subject to subsequent adjustment to a per capita basis, but in 1966-67 and 1967-68 the Province was paid directly. The total amount paid to the Association and the Province of Quebec in 1966-67 was $87,053,000. There were no abatements or equalization payments in that year.

Also not included in the total expenditures are tax abatements and tax equalization payments of $381,946,000 in 1967-68 and $246,540,000 in 1966-67 to the Province of Quebec, following its election in 1965 under the Established Programs (Interim Arrangements) Act, *1964-65, c.54,* to wholly administer and finance certain standing programs. These programs are hospital insurance and diagnostic services, old age assistance, blind persons allowances, disabled persons allowances, unemployment assistance, Canada Assistance Plan and certain aspects of general health grants and technical and vocational training.

209. *Statements requested by the Public Accounts Committee.* Volume II of the 1968 Public Accounts includes section 45, "Miscellaneous Statements". This section consists of four statements prepared by the Comptroller of the Treasury showing additional information recommended for inclusion in the Public Accounts by the Public Accounts Committee in its Ninth Report 1964-65. The attention of the House is directed to these statements.

1. Educational leave costs—Page 45.2

   This statement summarizes the cost of educational leave granted to employees under section 57 of the Public Service Terms and Conditions of Employment Regulations.

   It will be noted from the statement that for 1967-68 the total costs in respect of 497 employees amounted to $1,111,000. This compares with 504 employees and $938,000 in the previous year.

2. Losses of $1,000 or more due to accidental destruction of, or damage to, assets which would normally be covered by insurance had such coverage existed—Page 45.3

   This statement shows that such losses amounted to $1,850,000 in 1967-68 compared with $1,960,000 in the previous year.

3. Report of surplus material disposed of in 1967-68—Pages 45.4 and 45.5

A comparative summary of the surplus material disposed of in 1967-68 and in 1966-67, subject to the footnotes shown on the statement appearing in the 1968 Public Accounts, follows:

	1967–68		1966–67	
	Cost	Value Obtained	Cost	Value Obtained
Obsolete but serviceable	$ 17,864,000	$ 681,000	$ 30,821,000	$ 788,000
Surplus but serviceable	48,677,000	3,416,000	85,396,000	8,437,000
	$ 66,541,000	4,097,000	$ 116,217,000	9,225,000
Surplus but repairable		4,582,000		3,867,000
Scrap		832,000		836,000
		$ 9,511,000		$ 13,928,000

4. Summary of accounts properly chargeable to the fiscal year 1967-68 but carried over to the fiscal year 1968-69—Pages 45.6 to 45.10

This statement is commented on in paragraph 57 of this Report.

210. *Losses through the fraud, default or mistake of any person.* Section 70(1)(e) the Financial Administration Act provides that the Auditor General shall report nually to the House of Commons every case in which he has observed that there has en a deficiency or loss through the fraud, default or mistake of any person.

During the year, 144 losses totalling $87,721 were noted resulting from defalcations other fraudulent acts of public officers of which $61,416 was recovered leaving net sses of $26,305. These are summarized as follows:

Department	Number	Initial loss	Recoveries	Net loss
Indian Affairs and Northern Development	1	$ 453	$ 453	$
National Defence	48	16,981	15,145	1,836
National Health and Welfare	1	651	651	
Post Office	93	62,421	43,662	18,759
Transport	1	7,215	1,505	5,710
	144	$ 87,721	$ 61,416	$ 26,305

An amount of $1,219 has been recovered on the Department of National Defence ses since March 31, 1968 and the remaining $617 is chargeable to the Public Officers arantee Account at the request of the Department. The Post Office losses are charge-e to the Post Office Guarantee Fund. The Department of Transport net loss of $5,710 s charged to the Public Officers Guarantee Account prior to the year-end.

Additional deficiencies totalling $9,462 came to light in connection with two pre-usly reported losses. One of these amounting to $8,972 has since been charged to the

Public Officers Guarantee Account at the request of the Department of Indian Affairs and Northern Development and the remaining amount of $490 is chargeable thereto at the request of the Department of National Defence.

Not included in the above summary is the amount of $692,000 representing the value of the coin sets shipped from the Royal Canadian Mint irregularly without payment therefor being deposited in the Consolidated Revenue Fund. The full amount has since been deposited. (See paragraph 90 of this Report.)

Also noted in the audit were six other losses totalling $2,342 which are required to be reported although they do not fall within the category of losses due to defalcations or other fraudulent acts of a public officer and therefore are not chargeable to the Public Officers Guarantee Account. Recoveries of $932 during the year reduced the net loss to $1,410. The following is a summary by departments of these losses:

Department	Number	Initial Loss	Recoveries	Net Loss
Consumer and Corporate Affairs	1	$ 800	$	$ 800
Labour	2	610		610
National Defence	3	932	932	
	6	$ 2,342	$ 932	$ 1,410

Another loss which is not included in the above figures is referred to in paragraph 105 of this Report. It involved an undetermined gallonage of fuel oil which was lost when a departmental tractor broke a fuel line running from the bulk storage tank at Pond Inlet, N.W.T. The loss occurred because the valve close to the tank had not been closed while the pipe line was not in use.

211. *Non-productive payments.* The Public Accounts Committee in its Fifth Report 1960-61 requested the Auditor General to include in his future annual Reports to the House of Commons listings of any non-productive payments that might have come to his notice in the course of his annual audit. The Committee reiterated this request in its Sixth Report 1964-65.

Since 1961, in compliance with this request, there have been included in the Auditor General's annual Report to Parliament details of non-productive payments coming to our notice in the course of the audit. Again this year we have sought to pinpoint the underlying causes, particularly when the circumstances appear to have been beyond the control of the department or agency to whose appropriation the charge was made.

Many of these non-productive payments had their origin in transactions of prior years, although in most cases a payment was made in 1967-68. The total this year is estimated at $12,777,000. Of these, 40 cases are described in the foregoing paragraphs while the remaining 17 are as follows:

1. Realtor's commission in respect of an unsuitable tenant, Long Branch, Ont. Canadian Arsenals Limited engaged a realtor to obtain a tenant for unused portions of

its premises at Long Branch. In April 1967 it entered into a 62-month lease with a tenant at a rental of $2,175 per month for April and May 1967 and $3,708 per month thereafter. The realtor's commission, $7,315, based on the total rent to be received, was withheld by the realtor from the $11,000 deposit received from the lessee upon the signing of the lease. The tenant had financial difficulties and in April 1968, being in default in payments of rent, was evicted. Rent in arrears totalled $17,000 at March 31, 1968 and legal action for recovery has been initiated against the tenant. The portion of the commission which relates to the unexpired term of the lease amounts to $4,600.

2. Cost of defective purchase order forms. In 1966 the Department of Defence Production placed an order on behalf of the National Film Board for 10,000 purchase order forms at a price of $1,054. However, the printing specifications issued to the contractor had failed to state that the forms must be serially numbered. As over-printing was not possible, they were disposed of as scrap.

The cost of the defective forms was recovered from the National Film Board although no value had been received by it. Subsequently the forms were re-ordered and, because the Department of Defence Production was responsible for the defect in the original printing, the cost of reprinting, which was $1,074, was permitted to remain as a charge to the Canadian Government Supply Service revolving fund. The amount was later included in the sum requested of Parliament by the Department of Defence Production to reimburse the revolving fund for the cost of stores which had become obsolete or unserviceable—Department of Defence Production Vote 9c.

3. Additional costs due to faulty specifications. In 1965 Defence Construction (1951) Limited awarded a firm-price contract in the amount of $178,000 for renovations to the heating system at the Department of National Defence ordnance depot at Longue Pointe, Que.

The contract called for completion by January 23, 1966 but, largely because of faulty initial design and inaccurate or incomplete plans which resulted in numerous changes while the work was in progress, completion was delayed until January 1967. The total cost of the contract was $233,000 or $55,000 in excess of the amount originally quoted.

It is estimated that at least $16,000 of the increase in cost can be considered non-productive. In addition the contractor has submitted a claim for $9,000 over and above the amount already paid in respect of an increase in his costs due to design changes and delays. This claim was still under consideration at November 30, 1968.

4. Additional costs due to failure of the Crown to supply materials on schedule. In October 1964 the Department of Defence Production awarded a contract in the amount of $87,000 for the supply of parachutes to the Department of National Defence. The contract provided that the latter Department would supply the contractor with hardware salvaged from old parachutes thus saving an estimated $48,000.

Due to unforeseen operational requirements, shortage of staff, and failure to appreciate that the contractor would be delayed, the Department fell behind in its salvage operations and as a result did not supply the hardware on schedule. This interrupted the contractor's production lines on several occasions, increasing his costs and extending the term of the contract from October 1965 to June 1966.

In February 1968 the Treasury Board authorized a payment of $15,000 to reimburse the contractor for additional costs attributed to delays caused by the Crown.

5. Additional cost of roofing repairs due to changes in specifications. The following two cases were noted where problems developed in the course of repairs to the roofs

of buildings at Canadian Forces Bases which necessitated changes in specifications with resulting additional costs:

(a) In June 1965, Defence Construction (1951) Limited awarded a contract in the amount of $103,500 to reroof and repair three buildings at Canadian Forces Base Bagotville, in Quebec, including an amount of $51,000 to reroof a hangar.

The contract called for the removal of roofing from the hangar down to the deck and resurfacing with plywood, insulation, felts and an asphalt-emulsion coating in accordance with a cold-process roofing specification in use at that time. Within weeks of commencement of work the completed portion of the roof began to develop blisters, a condition which continued over the next two years despite repeated repairs by the contractor.

Early in 1967, after experiencing a number of similar roof failures, the Department changed the insulation specification for cold-process roofing and the contractor, on his own initiative, stripped a section of the roof and applied insulation meeting the new specification. When this proved successful in overcoming the blistering, the contractor proposed that he redo approximately one-half the main roof in accordance with the new specification at a cost to the Crown of $12,000, a price which represented only two-thirds of his costs, and, in addition, make repairs to other parts of the roof without cost to the Crown.

In August 1967 Defence Construction (1951) Limited authorized the contractor to proceed with his proposal which brought the total cost of reroofing the hangar to $63,000.

A certificate of completion was issued in September 1967 but the half of the roof repaired in accordance with the old specification is not entirely satisfactory in that, although watertight, it is blistered.

(b) On August 15, 1966 a contract was awarded for the repair and surface coating of the pitch and gravel roofing of five barrack blocks at Canadian Forces Base Borden, in Ontario, the work to be completed by October 29, 1966. The original contract price was $23,000, later increased to $31,000 to cover certain design changes and an increase in the quantities of materials required.

The original scope of the work included removal of all gravel and dirt, repairs to deteriorated areas of roofing and insulation, and resurfacing with coal-tar-pitch emulsion. However, bonding and "alligatoring" problems were encountered in resurfacing the roofs and this method was discontinued. The contract was then amended, requiring the complete removal of the existing felts and replacement with a cold-process roofing system over the existing cork insulation. The work was completed in July 1968 at a cost of $59,000. This figure included the cost of the work completed prior to discontinuation of the original method and, since the cold-process system made useless much of the work previously completed, a portion of the expenditure amounting to $8,400 may be considered as non-productive.

6. Cost of unused plans, Cold Lake, Alta. In September 1967 a firm of architects was engaged to prepare preliminary plans, specifications and a cost estimate for a 10-classroom school at Canadian Forces Base Cold Lake. The Department of National Defence had decided to site the new school adjacent to and possibly connected with an existing school on the Base and the architect was instructed accordingly. However, after further discussions of how best to meet the school requirements at Cold Lake, the Department in December 1967 recommended extension of another school at the Base. The contract with the architects was therefore terminated and the plans abandoned at a cost to the Crown of $5,300.

7. ARCHITECTS' FEES IN RESPECT OF ABANDONED WORK, VANCOUVER, B.C. In 1961 the National Harbours Board engaged a firm of architects to prepare plans and specifications for the construction of a combined coffee shop and office building at False Creek Fishermen's Terminal, Vancouver. The architects' fees amounted to \$3,900. During 1962 the Board contemplated a new design and engaged another firm of architects to draw a second set of plans for a combined restaurant and office building. This firm was paid \$4,600. Additional expenditures for foundation studies, drilling and advertising totalled \$2,100. No building was constructed and in 1967 the overall costs of \$10,600 which had been classified as "fixed assets under construction" were written off.

8. COST RESULTING FROM CANCELLATION OF A CONTRACT. In May 1967 the Post Office entered into a contract for the manufacture of 5,000 yards of scarlet cloth, to be used for the red piping on the trousers issued to letter carriers and other uniformed postal employees, at a cost of \$17,000. In August 1967, after the manufacturer had dyed the yarn but before he had woven the cloth, a decision by the Post Office to discontinue the red piping on the trousers eliminated the requirement for this material.

The manufacturer offered to cancel the contract on the basis of a payment of \$5,000 which was made to him in April 1968.

9. SETTLEMENT ARISING FROM AMBIGUOUS CONTRACT. In April 1967 the Royal Commission on the Status of Women in Canada engaged the services of a professor to act as director of research in social sciences and to prepare and implement a research program in accordance with the policy laid down by the Commission. The contract provided for payment of a fee of \$100 and a living allowance of \$25 for each day services were performed up to August 31, 1967 and, effective September 1, 1967 for a minimum of two years, an annual salary of \$22,000, a monthly living allowance of \$300 and other benefits. The termination clause provided, in part, that either party could terminate the contract by giving at least 30 days notice.

In November 1967 the Commission suspended the director and sought to change the contract to one providing for research in specific projects. This he would not accept and he was given 40 days notice terminating his employment as of January 10, 1968. Subsequently his lawyers submitted a claim for loss of earning power and unemployment stating there was ambiguity in the contract as to the remuneration to be paid on termination and suggested an amount of \$7,500 as reasonable compensation.

The Department of Justice expressed the opinion that it was quite probable that a court would award damages at least to the extent claimed and recommended settlement in that amount.

In all, the professor received \$24,500, of which \$10,600 was for the period subsequent to the date of notice of termination of contract in which no services were performed.

10. ADDITIONAL COSTS DUE TO CONSTRUCTION DELAY, OTTAWA. In 1961 the Department of Public Works awarded a contract in the amount of \$5,088,000 for the complete renovation of the West Block on Parliament Hill, to provide modern offices and facilities in the interior while preserving the original structure in other respects. The net result of a substantial number of extras and credits for deleted requirements was an additional cost of \$612,000 which brought the total cost to \$5,700,000 by 1966-67.

Since the building had been erected nearly 100 years ago, very little information existed to show the type of floor construction. Because the building was occupied, only a limited number of tests were made to determine this and these indicated that the structural strength of the floors was adequate. As demolition proceeded, however, and floor coverings and ceilings were removed, it became evident that the floor slabs at

the first and second floor levels were inadequate to support normal office loading. The necessity of replacing them led to a restriction of construction progress due to redesign measures and the time required for the approval of change orders.

The general contractor submitted a claim in the amount of $43,000 for additional job site costs resulting from the delay, which was settled during the year for $20,000. The settlement was based on a delay period of 10 weeks.

The millwork subcontractor also submitted a claim for additional costs due to the late issue to him of shop drawings. Because of the floor replacement problem, millwork was not required for installation until about six months later than originally scheduled, and advantage was taken of the delay to revise and improve certain details. The subcontractor's claim of $88,000 was recognized during the year to the extent of $24,000, consideration being given to (1) overhead with respect to unused shop capacity during the delay period, (2) increased wage rates due to work performance in a period of higher labour costs than had been expected, and (3) overtime expenses to meet revised target dates.

11. Additional cost due to construction delays, Charlottetown, P.E.I. In 1961 the Department of Public Works entered into a contract for the construction of a wharf for the Marine Agency of the Department of Transport at Charlottetown. The accepted tender, based on lump-sum prices for certain elements of the work and on fixed unit rates in relation to estimated quantities with respect to other elements, was $1,450,000. The final cost was $1,946,000, including a settlement of $264,000 in 1967 with respect to a claim for $630,000 which had been under negotiation since 1965.

The additional cost of $496,000 was mainly the result of steps taken to stabilize site foundations. Pre-construction investigations had indicated the presence of materials of questionable bearing capacity but the extent of slippages and consequent loss of fill was much greater than expected. The result was additional dredging, increased quantities of fill, and the supply and driving of a greater number of piles than initially planned.

The claim settlement included $24,000 for equipment rentals, labour and overhead during periods when the contractor was unable to work at full capacity in the placing of fill or in the driving of piles because of the procedures which the unexpected site conditions compelled him to adopt.

12. Cost of unused plans, Halifax, N.S. In 1964 the Department of Public Works, on behalf of the Department of Veterans Affairs, retained a firm of architects and engineers to prepare plans and specifications for and to supervise the construction of an extension and alterations to a fourth floor operating suite at Camp Hill Hospital, Halifax.

In August 1966, after the working drawings and specifications had been received from the consultants, the Department of Veterans Affairs decided that the work should not be proceeded with because it was apparent that the present building did not have the load-bearing capacity recommended by the National Building Code for operating suites.

During the year a final payment to the consultants brought to $14,000 the cost incurred for plans and specifications abandoned as a result of the cancellation of the project.

13. Cost of unused plans, Kelowna, B.C. In 1964, a firm of architects and consulting engineers was retained by the Department of Public Works to design, prepare working drawings and specifications for, and subsequently supervise construction of a federal building at Kelowna. The overall plan foresaw continued use of the existing federal building and erection of a two-storey structure without basement, at an estimated cost

of $450,000, to house the Post Office Department, the Unemployment Insurance Commission and the Customs and Excise Division of the Department of National Revenue.

The project has since been delayed by changes and increases in requirements and by design and site problems. During 1967 the consultants were directed to halt production of plans and later in the year they were paid $13,000 on a *quantum meruit* basis for work done on the original concept.

Present planning calls for the construction of a four-storey building, on a foundation designed for the addition of two floors, at an estimated cost of $1,850,000. It is unlikely that any of the original design work can be incorporated in the current proposal.

14. Cost of unused plans, Morden, Man. In 1965 a firm of architects and consulting engineers was engaged by the Department of Public Works, on behalf of the Department of Agriculture, for the design, preparation of working drawings and specifications, and subsequent supervision of construction of a composite office, laboratory and header-house building at the Morden Experimental Farm.

The consultants submitted two sketch schemes for consideration in June 1965, recommending as more economical and efficient one envisaging a compact three-storey building with attached single service facility. They were instructed, however, to proceed with the other scheme, which provided for a two-storey laboratory and single-storey administration and service facilities grouped around a courtyard, because the Departments of Public Works and Agriculture found it more architecturally satisfying.

The preliminary design was completed in December 1965 but the project was held in abeyance until August 1966 to enable the Department of Agriculture to review its overall research program. In 1967 the decision was reached to abandon the sketch drawings and the consultants were requested to prepare a further submission for a compact and economical structure. They were paid $5,500 as compensation for all work previously carried out. The building since approved is to be of single-storey construction throughout with a penthouse for mechanical services.

15. Cost of unused office space, Gaspé, Que. As a result of the separation of the National Employment Service, now the Canada Manpower Division, from the Unemployment Insurance Commission, the Department of Public Works was requested in February 1966 to obtain other accommodation for the Canada Manpower Centre in Gaspé. To meet this requirement, the Department in April arranged to lease space in a privately-owned building for a term of five years effective August 1, 1966 at an annual rental of $4,200. The Commission continued to occupy premises in a Crown-owned building.

The Commission had decided in July 1966 to close its office in Gaspé in 1967 but due to staff difficulties the office was closed in October 1966 and the space was left vacant. We were informed that this was because the Department of Public Works hoped that early agreement could be reached with the lessor for cancellation of the lease on the premises occupied by the Canada Manpower Centre. It was not until February 29, 1968, however, that negotiations led to this Centre moving to the vacant quarters in the Crown-owned building. The lease was terminated in consideration of payment to the lessor of $5,000 in lieu of full rental of $14,300 for the unexpired term of the lease to July 31, 1971. While full value was received for the rental of $5,600 paid for the period November 1, 1966 to February 29, 1968, suitable vacant Crown-owned accommodation was available and therefore payments of rental and termination charges totalling $10,600 may be considered as non-productive.

16. Cost of unused post office space, Ancienne Lorette, Que. In 1965 the Department of Public Works renewed a lease for a period of five years from June 1, 1965 at a rental

of $3,000 per annum, for postal accommodation being used at Ancienne Lorette. The Post Office Department had confirmed the adequacy of the premises for the demised term.

In March 1967 the Post Office Department informed the Department of Public Works that in the interim the municipality had qualified for letter carrier service and, with the introduction of this service in the near future, the leased space would be inadequate. Consequently, other accommodation was obtained and the lessor accepted $3,000 in lieu of full rental of $8,100 for the unexpired term of the lease from October 1, 1967 when the premises were vacated.

Summary of Assets and Liabilities

212. The Statement of Assets and Liabilities as at March 31, 1968, with comparative figures as at the end of the preceding year, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General in accordance with section 64 of the Financial Administration Act, is reproduced as Exhibit 2 to this Report.

Assets

213. The following table shows the assets at March 31, 1968, by main headings in the Statement of Assets and Liabilities, and the corresponding balances at the close of the two previous years:

	March 31, 1968	March 31, 1967	March 31, 1966
Current assets	$ 1,530,671,000	$ 1,393,966,000	$ 1,015,994,000
Blocked currency	2,136,000	2,136,000	1,002,000
Advances to the Exchange Fund Account	2,033,312,000	2,355,000,000	2,696,000,000
Investments in United States dollar securities issued by other than the Government of Canada	122,617,000	180,029,000	187,192,000
Canada Pension Plan Investment Fund	1,280,788,000	615,521,000	34,853,000
Investments held for retirement of unmatured debt	8,140,000	3,152,000	—
Loans to, and investments in, Crown corporations	7,935,611,000	6,728,665,000	5,659,074,000
Loans to national governments	1,206,084,000	1,201,581,000	1,225,213,000
Other loans and investments	1,945,156,000	1,713,998,000	1,263,213,000
Securities held in trust	59,535,000	50,853,000	51,956,000
Deferred charges	491,955,000	581,846,000	256,555,000
Inactive loans and investments	94,824,000	94,824,000	94,824,000
Total recorded assets	16,710,829,000	14,921,571,000	12,485,876,000
Less—Reserve for losses on realization of assets	546,384,000	546,384,000	546,384,000
Net recorded assets	$ 16,164,445,000	$ 14,375,187,000	$ 11,939,492,000

214. *Current assets.* The balances included under this heading at March 31, 1968, with the comparable balances at the close of the two previous years, were:

	March 31, 1968	March 31, 1967	March 31, 1966
Cash	$ 1,260,654,000	$ 1,009,249,000	$ 759,080,000
Departmental working capital advances—			
Stockpiling of uranium concentrates	74,956,000	57,163,000	37,070,000
Defence Production Revolving Fund	39,052,000	34,018,000	22,590,000
Miscellaneous departmental accountable, imprest and standing advances	27,084,000	23,226,000	21,124,000

	March 31, 1968	March 31, 1967	March 31, 1966
Bullion and coinage.................$	15,559,000	$ 18,048,000	$ 14,794,000
Transport stores....................	11,409,000	10,136,000	8,928,000
Defence Production—Canadian Government Supply Service............	5,064,000	860,000	—
Veterans Affairs hospital stores.......	2,126,000	—	—
Agricultural Commodities Stabilization Account........................	1,402,000	2,031,000	5,426,000
Fisheries Prices Support Account......	842,000	377,000	209,000
Other............................	9,046,000	11,936,000	10,436,000
	186,540,000	*157,795,000*	*120,577,000*
Securities held for the Securities Investment Account.....................	44,355,000	197,689,000	81,476,000
Other current assets..................	39,122,000	29,233,000	54,861,000
	$ 1,530,671,000	$ 1,393,966,000	$ 1,015,994,000

The amount of $74,956,000 for stockpiling of uranium concentrates comprised the accumulated costs of acquiring, refining and storing these concentrates.

The Defence Production Revolving Fund, established under the authority of section 16 of the Defence Production Act, *R.S., c.62,* provides funds to finance the cost of stocks of defence supplies and essential materials and for working capital loans and advances to manufacturers of such supplies and materials.

The item "Miscellaneous departmental accountable, imprest and standing advances" includes travel and other advances held by departments, government agencies and individuals over the year-end. The larger departmental totals of outstanding advances at March 31, 1968 were: Unemployment Insurance Commission, $10,063,000; Department of National Defence, $9,778,000; Department of Manpower and Immigration, $1,227,000; Department of Indian Affairs and Northern Development, $1,258,000; and the Post Office, $1,034,000.

The Defence Production - Canadian Government Supply Service revolving fund was originally established by Vote L18e, Appropriation Act No. 4, 1966, *1966-67, c.6,* for the purpose of acquiring and managing stores; for manufacturing, producing, processing or dealing in stores or materials; for the purchase and supply of repair services for office furniture and equipment; and for freight services. The purpose of the fund was extended by Vote L13g, Appropriation Act No. 2, 1967, *1966-67, c.85,* to include the procurement of insurance coverage at bulk rates on the movement of household effects and the financing of the cost of hotel accommodation in Montreal during the period of the Canadian Universal and International Exhibition in 1967. It was further extended by Vote L22a, Appropriation Act No. 7, 1967, *1967-68, c.8,* to include the financing of the travel accounts rendered by carriers for services arranged by the Central Travel Service on a recoverable basis for Federal Government departments and agencies.

The Veterans Affairs hospital stores account was established by Vote L100g, Appropriation Act No. 2, 1967, *1966-67, c.85,* for the purpose of financing the acquisition and storage of materials and supplies by departmental hospitals and other facilities in Canada, including the central medical stores maintained in Ottawa.

The $44,355,000 balance of the Securities Investment Account represents, at amortized cost, temporary holdings of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act.

The total of $39,122,000 shown for "Other current assets" comprises Post Office cash on hand and in transit, $18,744,000, and cash received by all departments after March 31, 1968 which was applicable to, and taken to account in, 1967-68.

215. *Blocked currency.* The amount of $2,136,000 on deposit in the Central Bank of Chile was received in payments on loans made by Export Credits Insurance Corporation to companies in Chile. The Government of Chile was unable to make available the necessary Canadian dollars for transfer to Canada but has agreed to the withdrawal of funds deposited in 1965 in ten equal instalments on April 1 and October 1 in the years 1968 to 1972, and to similar withdrawals of funds deposited in 1966 in the years 1969 to 1973. Interest at 6% per annum is payable by the Central Bank of Chile on these deposits.

216. *Advances to the Exchange Fund Account.* This Account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the Minister from time to time within the maximum ($3,500,000,000 at March 31, 1968) authorized by the Governor in Council under section 23 of the Currency, Mint and Exchange Fund Act, *R.S., c.315*. The balance of the Account at March 31, 1968 was $2,033,312,000 and the value of the assets acquired from these advances was $2,063,041,000, indicating an unrecorded surplus of $29,729,000. By comparison, the unrecorded surplus at the end of the preceding year was $30,282,000.

A summary of the transactions in this Account for the year ended December 31, 1967 is included in paragraph 318 of this Report.

217. *Investments in United States dollar securities issued by other than the Government of Canada.* These holdings consist of $122.6 million of special United States of America securities acquired under the authority of Order in Council P.C. 1964-1427 of September 10, 1964, pursuant to Vote L17a, Appropriation Act No. 7, 1964, *1964-65, c.20*, which provided for their purchase out of United States dollars paid to Canada pursuant to the Treaty between Canada and the United States of America relating to co-operative development of the water resources of the Columbia River Basin. Securities mature on November 1 of each year to 1971. In November 1967 securities of $30 million (US) matured and were redeemed by the Government of the United States.

218. *Canada Pension Plan Investment Fund.* Funds of the Canada Pension Plan in excess of an amount estimated as required to meet all payments in the following three months are available for investment in 20-year non-negotiable provincial and federal

securities at the current interest rate. Investments at March 31, 1968, with the comparable balances at March 31, 1967, were in securities of:

	March 31, 1968	March 31, 1967
Ontario	$ 728,599,000	$ 352,697,000
British Columbia	186,085,000	89,484,000
Alberta	113,333,000	54,135,000
Manitoba	76,412,000	37,016,000
Saskatchewan	55,557,000	25,894,000
Nova Scotia	47,862,000	22,663,000
New Brunswick	37,007,000	17,679,000
Newfoundland	23,693,000	11,693,000
Prince Edward Island	4,288,000	1,998,000
Quebec	2,244,000	368,000
Canada	5,708,000	1,894,000
	$ 1,280,788,000	$ 615,521,000

219. *Investments held for retirement of unmatured debt.* These investments of $8,140,000 consist of Canada bonds of two issues, with a face value of $8,675,000, purchased under terms of issue whereby the Government was to endeavour to purchase quarterly in the open market, under certain conditions, one-half of one percent of the principal amount of the issues. Particulars of the issues and the principal of the bonds purchased are:

	Principal amount	Purchased during year	Total bonds held
1962–80, 5½%	$ 120,000,000	$ 4,304,000	$ 7,604,000
1966–80, 5½%	80,000,000	1,071,000	1,071,000
	$ 200,000,000	$ 5,375,000	$ 8,675,000

220. *Loans to, and investments in, Crown corporations.* The following schedule shows the nature of these loans and investments at March 31, 1968:

	Capital stock at cost	Loans and advances	Total
Central Mortgage and Housing Corporation	$	$ 3,575,407,000	$ 3,575,407,000
Canadian National Railways	1,105,195,000	676,954,000	1,782,149,000
Farm Credit Corporation		921,685,000	921,685,000
The St. Lawrence Seaway Authority		492,418,000	492,418,000
National Harbours Board		250,035,000	250,035,000
Export Credits Insurance Corporation	5,000,000	194,122,000	199,122,000
Atomic Energy of Canada Limited	15,000,000	123,915,000	138,915,000
Canadian Overseas Telecommunication Corporation		52,383,000	52,383,000
National Capital Commission, other than Greenbelt—see also below		37,424,000	37,424,000
Northern Canada Power Commission		33,631,000	33,631,000
Polymer Corporation Limited	30,000,000		30,000,000

	Capital stock at cost	Loans and advances	Total
Canada Deposit Insurance Corporation..	$ 10,000,000	$ 19,350,000	$ 29,350,000
Canadian Dairy Commission...........		22,179,000	22,179,000
Canadian Commercial Corporation......		16,500,000	16,500,000
Canadian Broadcasting Corporation—working capital—see also below.......		9,000,000	9,000,000
Eldorado Mining and Refining Limited..	8,247,000		8,247,000
Bank of Canada.......................	5,920,000		5,920,000
Cape Breton Development Corporation..		5,250,000	5,250,000
Canadian Arsenals Limited............		5,000,000	5,000,000
Canadian National Railways—re acquisition and repair of passenger equipment		2,917,000	2,917,000
Canadian National Railways—re Yarmouth-Bar Harbour ferry...........		641,000	641,000
Canadian National (West Indies) Steamships, Limited......................	1,000	324,000	325,000
Canadian Patents and Development Limited..............................	296,000		296,000
	1,179,659,000	*6,439,135,000*	*7,618,794,000*
Recovery likely to require parliamentary appropriations—			
Canadian Corporation for the 1967 World Exhibition................		205,000,000	205,000,000
Canadian Broadcasting Corporation.		74,125,000	74,125,000
National Capital Commission—Greenbelt......................		37,692,000	37,692,000
		316,817,000	*316,817,000*
	$ 1,179,659,000	$ 6,755,952,000	$ 7,935,611,000

The total of $7,935,611,000, an increase of $1,206,946,000 over the previous year, does not represent the total equity of Canada in its Crown corporations at March 31, 1968. This equity in fact amounted to $9,485,710,000 as shown by their individual financial statements published in Volume III of the Public Accounts and as summarized in Appendix 12 on page 9.26 of Volume I of the Public Accounts. The principal reason for this is that the accounts of Canada are maintained on a modified cash basis which does not provide for recording as assets such items as surpluses of Crown corporations or the cost of certain capital assets which have been charged to expenditure. In no sense does the Statement of Assets and Liabilities of the Government of Canada purport to be a consolidation including the accounts of its wholly-owned corporations. The corporations maintain their individual accounts on the accrual accounting basis followed in commercial practice and a number have fiscal years conforming to the cycle of their individual operations rather than the April 1 to March 31 fiscal year.

Advances to Central Mortgage and Housing Corporation, made pursuant to section 2(1) of the Central Mortgage and Housing Corporation Act, *R.S., c.46,* increased by 634 million resulting from additional advances of: $670 million for loans to approved borrowers less repayments of $89 million; and $95 million less repayments of $27 million in respect of projects entered into with provinces, municipalities and universities; less repayments of $15 million by holders of National Housing Act insured mortgages.

The total for the Canadian National Railways increased by $164 million due to:

(a) further investments in 4% preferred stock of the Company pursuant to section 6 of the Canadian National Railways Capital Revision Act, *R.S., c.311,* and	
Canadian National Railways Financing and Guarantee Act, 1965-66, *1966-67, c.67*	$ 25,134,000
Canadian National Railways Financing and Guarantee Act, 1967, *1967-68, c.14*	4,825,000
(b) further advances under the authority of	
Canadian National Railways Financing and Guarantee Act, 1941, *1940-41, c.12* Canadian National Railways Financing and Guarantee Act, 1942, *1942-43, c.22*	11,340,000
Canadian National Railways Refunding Act, 1955, *1955, c.31*	72,300,000
Canadian National Railways Financing and Guarantee Act, 1965-66, *1966-67, c.67*	10,000,000
Canadian National Railways Financing and Guarantee Act, 1967, *1967-68, c.14*	
Section 3—capital expenditure	27,000,000
Section 9—temporary financing of C.N.R. deficit	13,000,000
Section 10—temporary financing of Air Canada	616,000
	$ 164,215,000

The amount for Farm Credit Corporation increased by $169.1 million over the preceding year due to further loans of $195.4 million, less repayments of $32.9 million, and $6.6 million paid to the Corporation under section 12 of the Farm Credit Act, *1959, c.43,* as additional capital.

The amount shown for The St. Lawrence Seaway Authority increased by $26.7 million comprising a net increase of $6.7 million in deferred interest on loans and additional loans totalling $20 million, including $16.4 million in respect of the Welland Canal of which $2.5 million, representing a temporary advance for the purpose of financing the Welland Canal deficit during the first quarter of the 1968 calendar year, is interest-free.

The total for the National Harbours Board increased by $28 million due to: further advances of $11 million for Vancouver Harbour, $5 million for Montreal Harbour, $2 million for Belledune Harbour (New Brunswick) under the authority of Vote L105, Appropriation Act No. 5, 1967, *1967-68, c.2,* and a loan of $10 million to the Saint John Harbour Bridge Authority pursuant to Vote L106b, Appropriation Act. No. 7, 1967, *1967-68, c.8.*

The amount shown for Export Credits Insurance Corporation reflects an increase of $35 million in advances to enable the Corporation to provide long-term financing of export sales of capital goods and services.

There was an increase of $33 million in advances to Atomic Energy of Canada Limited, mainly for the construction of: Gentilly nuclear power station, $12.5 million; Pickering generating station, $9 million; Nelson River transmission line, $5 million; Douglas Point generating station, $4 million; and manufacturing facilities and a laboratory for the Commercial Products Division, $2 million.

The amount of $29,350,000 shown for Canada Deposit Insurance Corporation represents a $10 million investment in capital stock of the Corporation pursuant to section 7 of the Canada Deposit Insurance Corporation Act, *1966-67, c.70,* and $19,350,000 of interest-bearing loans made under section 34 of the Act.

The amount shown for the Canadian Dairy Commission increased by $22 million over the preceding year due to further loans of $52 million, less repayments of $30 million, under the Canadian Dairy Commission Act, *1966-67, c.34.*

The amount of $16.5 million for the Canadian Commercial Corporation represents working capital advances of $10 million made under authority of section 8(1) of the Canadian Commercial Corporation Act, *R.S., c.35,* and interest-bearing loans of $6.5 million made during the year under authority of section 8(2) of the Act.

Under authority of section 19(2) of the Cape Breton Development Corporation Act, *1967-68, c.6,* $5 million was advanced to the Corporation as working capital of the Coal Division, and $250,000 was advanced to the Corporation by the Minister of Finance by way of a temporary loan under authority of section 82 of the Financial Administration Act.

Additional loans to the Canadian Corporation for the 1967 World Exhibition amounting to $30 million were authorized by Votes L40 and L40a, Appropriation Act No. 7, 1967, *1967-68, c.8.* The total of the loans advanced to March 31, 1968 was $205 million. Repayment of the loans will involve parliamentary appropriations in future years.

The financing of the capital requirements of the Canadian Broadcasting Corporation continued to be by means of loans. Additional loans, under the authority of Vote L20, Appropriation Act No. 7, 1967, *1967-68, c.8,* totalled $21 million. Repayments during the year amounted to $2.9 million. Repayment of the loans of $74,125,000 outstanding at March 31, 1968 will involve parliamentary appropriations over a period of 20 years.

221. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1968 in comparison with the balances at the close of the two previous years:

	March 31, 1968	March 31, 1967	March 31, 1966
United Kingdom	$ 1,039,999,000	$ 1,059,231,000	$ 1,078,088,000
France	67,600,000	67,600,000	67,600,000
Netherlands	32,130,000	32,130,000	32,130,000
Belgium	20,763,000	23,070,000	25,377,000
India	1,323,000	3,969,000	16,088,000
Other countries	164,000	527,000	674,000
	1,161,979,000	*1,186,527,000*	*1,219,957,000*
Special assistance loans to developing countries:			
India	16,953,000	1,579,000	—
Pakistan	12,665,000	7,277,000	2,996,000
Nigeria	3,976,000	3,031,000	2,001,000
Ceylon	2,974,000	974,000	214,000
Trinidad and Tobago	2,839,000	1,628,000	45,000
Tanzania	1,770,000	—	—
Jamaica	1,540,000	251,000	—
Guyana	1,067,000	314,000	—
Other countries	321,000	—	—
	44,105,000	*15,054,000*	*5,256,000*
	$ 1,206,084,000	$ 1,201,581,000	$ 1,225,213,000

The decrease in indebtedness of the United Kingdom, Belgium and India resulted from payments of the annual instalments of principal. No payments were due from France and the Netherlands during the year because of special payments made in 1962-63 covering instalments up to and including the 1969 instalment.

The special assistance loans to developing countries increased by $29,051,000 during the year. These loans include $20,185,000 repayable over 40 years, following a grace period of 10 years from the date of execution of each agreement, and bear interest at $\frac{3}{4}$ of 1% per annum on the amount of the loan committed less any repayments, and $20,167,000 of interest-free loans, also repayable over 40 years with a grace period of 10 years.

222. *Other loans and investments.* The balances comprising this asset at March 31, 1968, with comparable balances at the end of the two previous years, were:

	March 31, 1968	March 31, 1967	March 31, 1966
Subscriptions to capital of, and working capital advances and loans to, international organizations	$ 969,646,000	$ 952,188,000	$ 724,695,000
Veterans' Land Act Fund	406,231,000	333,857,000	278,842,000
Less—Reserve for conditional benefits	23,282,000	22,449,000	22,651,000
	382,949,000	*311,408,000*	*256,191,000*
Municipal Development and Loan Board	280,595,000	236,331,000	115,491,000
Less—Reserve for forgiveness of indebtedness	922,000	5,097,000	6,633,000
	279,673,000	*231,234,000*	*108,858,000*
Provincial governments	187,748,000	123,515,000	96,723,000
Housing projects for the Canadian Forces	21,598,000	20,497,000	20,560,000
Manufacturers of automotive products in Canada	20,505,000	12,627,000	125,000
Assisted passage scheme	13,219,000	11,096,000	6,387,000
Government of the Northwest Territories	12,781,000	8,876,000	6,418,000
Government of the Yukon Territory	11,480,000	9,073,000	8,540,000
Manufacturers—defence plant modernization	10,210,000	—	—
Government equity in agency account of Crown Assets Disposal Corporation	7,257,000	7,298,000	5,004,000
Other balances	24,221,000	22,090,000	25,504,000
	1,941,287,000	1,709,902,000	1,259,005,000
Recovery likely to require parliamentary appropriations—			
Capital assistance loans, Town of Oromocto, New Brunswick	3,869,000	4,096,000	4,208,000
	$ 1,945,156,000	$ 1,713,998,000	$ 1,263,213,000

The following is a listing of Canada's subscriptions to capital of, and working capital advances and loans to, international organizations at March 31, 1968, in comparison with the amounts at the close of the two previous years:

	March 31, 1968	March 31, 1967	March 31, 1966
Subscriptions to capital—			
International Monetary Fund	$ 782,655,000	$ 782,655,000	$ 577,250,000
International Development Association	85,749,000	70,722,000	55,695,000
International Bank for Reconstruction and Development	85,024,000	85,024,000	80,483,000
Asian Development Bank	5,405,000	2,703,000	—
International Finance Corporation	3,522,000	3,522,000	3,522,000
	962,355,000	944,626,000	716,950,000
Working capital advances and loans	7,291,000	7,562,000	7,745,000
	$ 969,646,000	$ 952,188,000	$ 724,695,000

During the year Canada increased its subscription to the capital of the International Development Association by $15,027,000 and also subscribed $2,702,000 for the purchase of an additional 250 shares in the Asian Development Bank as authorized by Vote L23b, Appropriation Act No. 9, 1966, *1966-67, c.55.*

The increase of $71,541,000 in the Veterans' Land Act Fund was mainly due to additional advances of $94,630,000 for the purchase of property, less repayments of $27,098,000. Vote L115, Appropriation Act No. 7, 1967, *1967-68, c.8,* increased the amount that may be charged to this Fund by $150 million to $530 million.

The Municipal Development and Loan Board advances were made pursuant to the Municipal Development and Loan Act, *1963, c.13,* to provide financial assistance to augment or accelerate municipal capital works programs. The Act provided for the forgiveness of 25% of the principal amount of a loan where the municipal project in respect of which the loan was extended was completed to the satisfaction of the Municipal Development and Loan Board on or before September 30, 1966, and 25% of the cost of the work performed to that date where the project was not completed until a later date. The reserve of $922,000 represents the provision for forgiveness with respect to advances on uncompleted projects at March 31, 1968.

The loans to provincial governments at March 31, 1968, with the comparable balances at the end of the two previous years, were:

	March 31, 1968	March 31, 1967	March 31, 1966
New Brunswick	$ 45,172,000	$ 31,782,000	$ 29,048,000
Nova Scotia	38,394,000	22,394,000	7,043,000
Newfoundland	30,389,000	17,725,000	3,525,000
Saskatchewan	29,199,000	26,386,000	29,995,000
Quebec	18,912,000	—	—
Manitoba	10,801,000	9,461,000	10,002,000
British Columbia	9,431,000	10,343,000	11,239,000
Alberta	4,970,000	5,424,000	5,871,000
Prince Edward Island	480,000	—	—
	$ 187,748,000	$ 123,515,000	$ 96,723,000

Included in the above figures at March 31, 1968 are $38,082,000 of overpayments to the provinces in respect of the fiscal years 1962-63 to 1966-67 resulting from final adjustments of amounts due to the provinces under the Federal-Provincial Fiscal Arrangements Act, *1960-61, c.58,* on the basis of the 1966 census.

The amount of $10,210,000 for "Manufacturers—defence plant modernization" represents advances made under the authority of Vote L65, Appropriation Act No. 7, 1967, *1967-68, c.8,* as the loan portion of assistance to defence manufacturers for plant modernization. Interest-free loans equivalent to 50% of the cost of new equipment are made for terms of five years. Prior to establishment of the account, such loans were made from the Defence Production Revolving Fund, of which $8,522,000 was outstanding at March 31, 1968.

223. *Securities held in trust.* The amount of $59,535,000 at March 31, 1968 represents securities held for the following accounts: guarantee deposits in respect of oil and gas permits, $40,811,000; guarantee deposits in respect of customs duties and excise taxes, $5,471,000; deposits in respect of tax on recaptured depreciation of commercial and fishing vessels, $3,625,000; pilots' pension funds, $3,662,000; contractors' securities, $2,954,000; and other, $3,012,000.

224. *Deferred charges.* The balances included under this heading at March 31, 1968, with the comparable balances at the close of the two previous years, were:

	March 31, 1968	March 31, 1967	March 31, 1966
Unamortized portion of actuarial deficiencies—			
Canadian Forces Superannuation Account....	$ 187,617,000	$ 260,223,000	$ 53,601,000
Public Service Superannuation Account......	150,320,000	189,453,000	93,621,000
Royal Canadian Mounted Police Superannuation Account..........................	15,816,000	10,957,000	3,115,000
	353,753,000	460,633,000	150,337,000
Unamortized loan flotation costs.............	138,202,000	121,213,000	106,218,000
	$ 491,955,000	$ 581,846,000	$ 256,555,000

The item "Unamortized portion of actuarial deficiencies", $353,753,000 at March 31, 1968, decreased by $106.9 million from the previous year because credits of $138.5 million for amortization of deficiencies exceeded charges of $31.6 million of which $24.1 million resulted from salary revisions and $7.5 million represented the provision required for an actuarial deficiency in the Royal Canadian Mounted Police Superannuation Account at December 31, 1964. The relative statutes provide that the amounts of special credits to the Superannuation Accounts (set up as "Deferred charges—Unamortized portion of actuarial deficiencies") shall be charged to the Consolidated Revenue Fund in five equal annual instalments.

The item "Unamortized loan flotation costs" records the unamortized portion of discounts and commissions paid on the flotation of loans. The following is a summary of the transactions for the year:

Balance at April 1, 1967		$ 121,213,000
Add:		
Discount and commissions on new loans		62,948,000
Discount and commissions on additional issues of existing loans		884,000
		185,045,000
Deduct:		
Amortization charges included in 1967–68 expenditure		46,843,000
Balance at March 31, 1968		$ 138,202,000

225. *Inactive loans and investments.* The $94,824,000 shown for this item, which has been unchanged for many years, comprised the following balances:

Loan to China in 1946 under the Export Credits Insurance Act	$ 49,426,000
Loans to Roumania in 1919 for the purchase of goods produced in Canada	24,329,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company Limited (carrying prior guarantee by the Government of China)	14,470,000
Loans to Greece in 1919 for the purchase of goods produced in Canada	6,525,000
Loan to Province of Saskatchewan in 1908 for the purchase of seed grain (last payment received in 1959–60)	74,000
	$ 94,824,000

Liabilities

226. The following table shows the liabilities at March 31, 1968, by main headings in the Statement of Assets and Liabilities, and the corresponding balances at the close of the two previous years:

	March 31, 1968	March 31, 1967	March 31, 1966
Current and demand liabilities	$ 2,310,627,000	$ 1,672,102,000	$ 1,399,628,000
Deposit and trust accounts	440,885,000	347,314,000	310,729,000
Annuity, insurance and pension accounts	9,052,968,000	7,915,922,000	6,392,970,000
Undisbursed balances of appropriations to special accounts	124,819,000	101,518,000	111,652,000
Refundable corporation tax	235,269,000	196,157,000	—
Provision for estimated premium on redemption of bonds	26,041,000	19,993,000	14,972,000
Deferred credits	149,861,000	142,828,000	138,119,000
Suspense accounts	3,825,000	4,097,000	5,083,000
Unmatured debt	20,579,875,000	19,940,206,000	19,109,787,000
	$ 32,924,170,000	$ 30,340,137,000	$ 27,482,940,000

227. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1968, in comparison with the balances at the close of the two previous years, were:

	March 31, 1968	March 31, 1967	March 31, 1966
Non-interest-bearing notes payable to the International Monetary Fund and other international organizations	$ 816,730,000	$ 366,378,000	$ 255,388,000
Accounts payable	520,196,000	454,510,000	380,309,000
Outstanding treasury cheques	427,401,000	382,625,000	332,860,000
Interest accrued	315,283,000	286,250,000	254,292,000
Interest due	161,569,000	111,272,000	110,931,000
Matured debt	25,969,000	30,670,000	27,325,000
Other	43,479,000	40,397,000	38,523,000
	$ 2,310,627,000	$ 1,672,102,000	$ 1,399,628,000

Non-interest-bearing notes payable to the International Monetary Fund, $791 million, the International Development Association, $23 million, and the Asian Development Bank, $2.7 million, are those portions of Canada's quotas of the capital of these international agencies which are not covered by cash or gold.

The amounts shown for "Accounts payable" are the totals of charges pertaining to the year for which cheques were issued in April of the following fiscal year.

228. *Deposit and trust accounts.* The following is a listing of the balances included in this item at March 31, 1968 in comparison with the balances at the close of the two previous years:

	March 31, 1968	March 31, 1967	March 31, 1966
Provincial tax collection agreements	$ 120,210,000	$ 92,532,000	$ 66,320,000
Guarantee deposits	50,046,000	41,214,000	39,800,000
Special deposit held for Canadian Commercial Corporation	38,176,000	—	—
Indian trust funds	34,015,000	33,721,000	32,051,000
Canadian Dairy Commission	25,241,000	15,000	—
Deposits by Crown corporations	23,726,000	29,415,000	30,416,000
Post Office Savings Bank	18,596,000	20,756,000	22,024,000
National Harbours Board	16,771,000	17,225,000	21,627,000
Canadian Pension Commission (Administration trust fund)	16,545,000	16,015,000	15,160,000
Instalment purchase of bonds by public service employees	16,168,000	16,336,000	13,568,000
Contractors' holdbacks	14,896,000	14,888,000	10,361,000
Prairie Farm Emergency Fund	13,001,000	10,852,000	3,295,000
Veterans' Land Act trust account	8,936,000	7,464,000	7,041,000
Army Benevolen Fund	5,033,000	5,241,000	5,385,000
Royal Canadian Mint—prepayments	4,527,000	4,038,000	537,000
Contractors' security deposits	4,240,000	3,945,000	5,254,000
Veterans care trust fund	4,142,000	3,359,000	2,974,000
Deposits respecting capital cost allowances on commercial and fishing vessels	4,003,000	4,264,000	6,982,000
Other	22,613,000	26,034,000	27,934,000
	$ 440,885,000	$ 347,314,000	$ 310,729,000

The Federal Government collects provincial income taxes from persons on behalf of all provinces except Quebec and from corporations on behalf of all provinces except Ontario and Quebec. At March 31, 1968 collections had exceeded remittances by $120,210,000.

During the year the Government of the Netherlands deposited to the credit of the Canadian Commercial Corporation $38,176,000 as partial payment for the procurement of aircraft.

Section 15 of the Canadian Dairy Commission Act, *1966-67, c.34,* established the Canadian Dairy Commission Account in the Consolidated Revenue Fund in which are recorded all receipts and payments of the Commission except those relating to administration. The balance of $25,241,000 at March 31, 1968 includes $24,948,000 representing payment to the Commission by the Agricultural Stabilization Board to cover milk price stabilization payments estimated payable for deliveries made in February and March 1968 and an anticipated loss of $10 million on stocks of dairy products held by the Commission at March 31, 1968.

The balance in the Post Office Savings Bank, $18,596,000, is the amount on deposit in 296,136 depositors' accounts—a reduction of $2,160,000 and 1,540 accounts during the year. Interest is paid on deposits at a rate of $2\frac{1}{2}\%$ per annum.

The Canadian Pension Commission (Administration trust fund) account comprises (a) pensions administered by the Canadian Pension Commission, (b) contributions received by the Commission to assist pensioners or their dependants, and (c) detention allowances for Canadian seamen. The increase during 1967-68 reflects receipts of $4,759,000 and disbursements of $4,229,000.

The Prairie Farm Assistance Act, *R.S., c.213,* imposes a levy of 1% on the price of grain purchased by licensees under the Canada Grain Act, *R.S., c.25,* and the moneys collected are credited to the Prairie Farm Emergency Fund. Awards are made to eligible armers in areas affected by crop failures in the provinces of Manitoba, Saskatchewan and Alberta and the Peace River District of British Columbia. During 1967-68 credits o the Fund totalled $10,990,000 while awards totalled $8,841,000, resulting in a surplus f $2,149,000 for the year.

The balance of $4,527,000 in the Royal Canadian Mint prepayments account at March 31, 1968 is the recorded balance at that date of the moneys received in payment f uncirculated coin sets being held pending the minting of the coins and shipment of the ets.

The Veterans care trust fund contains assigned pension moneys and other income f veterans who are receiving domiciliary care and treatment. Disbursements are made n behalf of the individual veterans in accordance with regulations approved by the overnor in Council.

Deposits respecting capital cost allowances on commercial and fishing vessels were lministered in previous years by the Canadian Maritime Commission under the authory of the Canadian Vessel Construction Assistance Act, *R.S., c.43.* In March 1967 this

Act was repealed by "An Act to amend the Income Tax Act and to repeal the Canadian Vessel Construction Assistance Act", *1966-67, c.91,* which includes provisions similar to those of the repealed Act whereby an owner of a vessel may, at the time of its disposal, deposit with the Department of Industry an amount at least equal to the tax that would otherwise be payable in respect of the proceeds of disposition. Such deposit, including one made under the terms of the repealed legislation, may be returned to an owner who, before 1974, acquires a vessel that was constructed in Canada or incurs conversion costs in Canada with respect to a vessel, under conditions satisfactory to the Minister of Industry. During the year $6,153,000 was deposited to this account and $6,414,000 was returned to owners.

The $22,613,000 shown for "Other" balances at March 31, 1968 represents the total of 85 balances including: Common school funds, $2,678,000; Permanent services deferred pay, $2,602,000; Emergency gold mining assistance holdbacks, $2,281,000; National Research Council of Canada special fund, $2,078,000; and the Immigration guarantee fund, $1,617,000.

229. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1968, in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	March 31, 1968	March 31, 1967	March 31, 1966
Superannuation accounts—			
Public Service	$ 2,875,823,000	$ 2,689,468,000	$ 2,390,383,000
Canadian Forces	2,723,268,000	2,577,017,000	2,184,210,000
Royal Canadian Mounted Police	104,724,000	85,081,000	65,411,000
	5,703,815,000	*5,351,566,000*	*4,640,004,000*
Canada Pension Plan Account	1,352,754,000	680,881,000	89,406,000
Government Annuities Account	1,326,098,000	1,324,519,000	1,317,080,000
Old Age Security Fund	536,089,000	429,592,000	216,983,000
Other	134,212,000	129,364,000	129,497,000
	$ 9,052,968,000	$ 7,915,922,000	$ 6,392,970,000

The transactions during the year ended March 31, 1968 in the superannuation accounts are summarized as follows:

Public Service

Balance at April 1, 1967		$ 2,689,468,000
Add:		
Actuarial adjustment re pay increases—contra—"deferred charges" account	$ 21,500,000	
Interest	110,898,000	
Contributions by participants	72,064,000	
Contributions by the Government	64,593,000	
Other credits	1,414,000	
		270,469,000
		2,959,937,000

Deduct:		
Annuity payments	$ 68,167,000	
Withdrawals of contributions	10,855,000	
Other charges	5,092,000	
		84,114,000
Balance at March 31, 1968		$ 2,875,823,000

Canadian Forces

Balance at April 1, 1967		$ 2,577,017,000
Add:		
Interest	$ 105,247,000	
Contributions by the Government	58,405,000	
Contributions by participants	33,048,000	
Other credits	1,404,000	
		198,104,000
		2,775,121,000
Deduct:		
Annuity payments	45,882,000	
Gratuities and withdrawal allowances	5,863,000	
Other charges	108,000	
		51,853,000
Balance at March 31, 1968		$ 2,723,268,000

oyal Canadian Mounted Police

Balance at April 1, 1967		$ 85,081,000
Add:		
Actuarial adjustments—contra—"deferred charges" account, re:		
pay increases	$ 2,600,000	
deficit at December 31, 1964	7,547,000	
Contributions by the Government	4,201,000	
Interest	3,535,000	
Contributions by participants	2,701,000	
Contributions by Newfoundland	17,000	
Other credits	32,000	
		20,633,000
		105,714,000
Deduct:		
Annuities and allowances payments	778,000	
Termination payments	203,000	
Other charges	9,000	
		990,000
Balance at March 31, 1968		$ 104,724,000

The following is a summary of the transactions in the Canada Pension Plan Account for the years ended March 31, 1968 and March 31, 1967 and for the period from January 1, 1966 (the date of inception) to March 31, 1966:

	Year ended March 31		January 1 to March 31, 1966
	1968	1967	
Balance at beginning of year	$ 680,881,000	$ 89,406,000	$ —
Add:			
Contributions from employers and employees	640,244,000	587,202,000	94,880,000
Interest	43,578,000	12,084,000	37,000
Other income	835,000	617,000	—
	684,657,000	*599,903,000*	*94,917,000*
	1,365,538,000	689,309,000	94,917,000
Deduct:			
Administrative expenses	11,516,000	8,377,000	5,511,000
Benefit payments	1,268,000	51,000	—
	12,784,000	*8,428,000*	*5,511,000*
Balance at end of year	$ 1,352,754,000	$ 680,881,000	$ 89,406,000

The following is a summary of the transactions in the Government Annuities Account during the past three years:

	Year ended March 31		
	1968	1967	1966
Balance at beginning of year	$ 1,324,519,000	$ 1,317,080,000	$ 1,303,137,000
Add:			
Interest	50,954,000	50,602,000	50,048,000
Premiums	18,587,000	21,944,000	27,619,000
Sundry adjustments	25,000	39,000	6,000
	69,566,000	*72,585,000*	*77,673,000*
	1,394,085,000	1,389,665,000	1,380,810,000
Deduct:			
Vested annuity and commuted value payments and refunds	66,800,000	65,018,000	62,228,000
Transfer to revenue of the excess over actuarial value of outstanding contracts	1,187,000	128,000	1,502,000
	67,987,000	*65,146,000*	*63,730,000*
Balance at end of year	$ 1,326,098,000	$ 1,324,519,000	$ 1,317,080,000

The following is a summary of the transactions in the Old Age Security Fund during the past three years:

	Year ended March 31		
	1968	1967	1966
Collections of tax—			
On sales	$ 544,516,000	$ 559,515,000	$ 522,086,000
On personal incomes	800,100,000	576,600,000	494,900,000
On corporation incomes	150,000,000	149,500,000	152,250,000
	1,494,616,000	1,285,615,000	1,169,236,000
Payments of pensions under the Old Age Security Act	1,388,119,000	1,073,006,000	927,299,000
Surplus for the year	106,497,000	212,609,000	241,937,000
Preceding year's balance brought forward	429,592,000	216,983,000	(24,954,000)
Surplus at March 31	$ 536,089,000	$ 429,592,000	$ 216,983,000

The following is a listing of the major items included in "Other" at March 31, 1968 n comparison with the balances at the close of the two previous years:

	March 31, 1968	March 31, 1967	March 31, 1966
Veterans Insurance Fund	$ 31,616,000	$ 30,961,000	$ 30,123,000
Civil Service Insurance Fund	24,061,000	24,152,000	24,218,000
Canadian Regular Forces Death Benefit Account	18,844,000	17,901,000	16,717,000
Unemployment Insurance Fund	16,397,000	13,844,000	13,571,000
Public Service Death Benefit Account	14,389,000	12,774,000	11,197,000
Returned Soldiers' Insurance Fund	10,787,000	11,413,000	12,115,000
Royal Canadian Mounted Police Dependants' Pension Fund	8,093,000	7,901,000	7,663,000
Pilots' Pension Funds	3,751,000	3,395,000	5,214,000
Members of Parliament Retiring Allowances Account	2,559,000	2,329,000	2,075,000
Crop Reinsurance Fund	1,911,000	880,000	249,000
Sundry	1,804,000	3,814,000	6,355,000
	$ 134,212,000	$ 129,364,000	$ 129,497,000

The transactions during the year ended March 31, 1968 in the Members of Parlia-ent Retiring Allowances Account are summarized as follows:

Balance at April 1, 1967		$ 2,329,000
Add:		
Contributions by participants	$ 236,000	
Contributions by the Government	206,000	
Interest	97,000	
		539,000
		2,868,000

Deduct:		
Annual allowances	$ 294,000	
Withdrawal allowances	15,000	
		309,000
Balance at March 31, 1968		$ 2,559,000

The Crop Reinsurance Fund account was established by an amendment (*1964-65 c.28*) to the Crop Insurance Act, *1959, c.42*. Moneys paid by four provinces for the purpose of reinsurance under reinsurance agreements amounting to $1,031,000 were credited to the Fund during 1967-68. No claims were paid during the year.

230. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances included in this item at March 31, 1968 in comparison with the balances at the close of the two previous years:

	March 31, 1968	March 31, 1967	March 31, 1966
International Assistance Account	$ 64,846,000	$ 61,485,000	$ 78,680,000
Surplus Crown Assets Account—Department of National Defence	31,053,000	24,303,000	9,073,000
Area Development Account	11,000,000	—	—
Railway Grade Crossing Fund	9,509,000	10,279,000	11,005,000
Centennial of Confederation Fund	7,253,000	4,714,000	10,555,000
Other	1,158,000	737,000	2,339,000
	$ 124,819,000	$ 101,518,000	$ 111,652,000

The International Assistance Account was established under authority of Department of External Affairs Vote 33d, Appropriation Act No. 2, 1965, *1964-65, c.50*. The Account provides for economic, technical and educational assistance to developing countries and for certain special administrative expenses in connection therewith. Under authority of Department of External Affairs Vote 35, Appropriation Act No. 7, 1967 *1967-68, c.8*, the Account was credited with $50,000,000 during 1967-68. Expenditure during the year totalled $46,639,000.

The balance in the Surplus Crown Assets Account increased by $6,750,000 during the year, made up of $8,846,000 in receipts from sales of surplus materials, supplies, equipment, buildings, works and land of the Department of National Defence, which were credited to the Account under authority of annual appropriation Acts, offset by expenditures of $2,096,000 charged to the Account during the year.

The Area Development Account was established by the Area Development Incentives Act, *1965, c.12*, which together with Department of Industry Vote 15e, Appropriation Act No. 4, 1966, *1966-67, c.6*, provides that $50,000,000 may be credited thereto from time to time as required and "such other amounts as may be appropriated by Parliament for the purposes of this Act". The balance of $11,000,000 in the Account at March 31, 1968 was provided by Department of Industry Vote 25c, Appropriation Act No. 1 1968, *1967-68, c.34*.

Amounts of $5,000,000 provided under section 265 of the Railway Act, *R.S., c.234*, and $10,000,000 provided under Department of Transport Vote 57, Appropriation Act No. 5, 1967, *1967-68, c.2*, were credited to the Railway Grade Crossing Fund during 1967-68. Expenditure totalling $15,770,000 was incurred in aiding in the cost of installing protective devices at railway crossings, grade separations, and reflective markings on the sides of railway cars.

An amount of $13,235,000 provided by Department of the Secretary of State Votes 45 and 45a, Appropriation Act No. 7, 1967, *1967-68, c.8*, was credited to the Centennial of Confederation Fund, while expenditure of $10,696,000 was charged thereto.

231. *Refundable corporation tax.* The balance of $235,269,000 represents amounts received from corporations and trusts as special refundable income tax computed in accordance with an amendment (*1966-67, c.47*) to the Income Tax Act, *R.S., c.148*. This special tax applied to the period May 1, 1966 to October 31, 1967 and is refundable, with interest at 5% per annum, from 18 to 36 months after the date of receipt.

232. *Provision for estimated premium on redemption of bonds.* The following is an analysis of this item at the close of the 1967-68 fiscal year and the two previous years:

	March 31, 1968	March 31, 1967	March 31, 1966
Canada Savings Bonds—			
Series 14 maturing in 1968	$ 19,639,000	$ 17,306,000	$ 14,972,000
Centennial Series maturing in 1979	5,366,000	2,687,000	—
Series 22 maturing in 1980	1,036,000	—	—
	$ 26,041,000	$ 19,993,000	$ 14,972,000

Provision for the premiums payable at maturity on Canada Savings Bonds maturing November 1, 1968 increased by $2,333,000 during the year and additional amounts will be provided so that the provision at maturity date will be $21 million. A further provision of $3,715,000 was made during the year with respect to the special compound interest payable on the Centennial Series and Series 22 of Canada Savings Bonds.

233. *Deferred credits.* The following is an analysis of this item at the close of the 1967-68 fiscal year and the two previous years:

	March 31, 1968	March 31, 1967	March 31, 1966
Deferred interest on loans made under The United Kingdom Financial Agreement Act, 1946	$ 82,985,000	$ 82,985,000	$ 82,985,000
Deferred interest on loans to The St. Lawrence Seaway Authority	54,468,000	47,768,000	45,145,000
Equity in agency account of Crown Assets Disposal Corporation	7,257,000	7,298,000	5,004,000
Other balances	5,151,000	4,777,000	4,985,000
	$ 149,861,000	$ 142,828,000	$ 138,119,000

The St. Lawrence Seaway Authority paid $10,843,000 on account of interest previously deferred, while payment of interest for the year 1967 amounting to $17,543,000 was in turn deferred. This deferred interest is payable by the Authority over a 41-year period along with repayments of principal.

234. *Suspense accounts.* The largest suspense item is "Unclaimed cheques account" which totalled $1.2 million at March 31, 1968.

235. *Unmatured debt.* A summary of the unmatured debt outstanding at March 31, 1968, in comparison with balances outstanding at the close of the previous two years, is as follows:

	March 31, 1968	March 31, 1967	March 31, 1966
Bonds—			
Payable in Canada	$ 17,939,521,000	$ 17,264,612,000	$ 16,588,787,000
Payable in New York	160,354,000	365,594,000	371,000,000
	18,099,875,000	*17,630,206,000*	*16,959,787,000*
Treasury bills	2,480,000,000	2,310,000,000	2,150,000,000
	$ 20,579,875,000	$ 19,940,206,000	$ 19,109,787,000

The increase of $674,909,000 in the bonds payable in Canada is the amount by which new borrowings of $3,764,550,000 exceeded redemptions of $3,089,641,000. Canada Savings Bonds accounted for $1,403,735,000 of the new borrowings and $1,323,641,000 of the redemptions.

Issues payable in New York were valued at the official parity rate of $1 US = $1.08108 Canadian.

It has always been the practice to include treasury bills and bonds maturing within the ensuing fiscal year in the amount for "Unmatured debt" along with issues maturing at later dates. In addition to treasury bills of $2,480,000,000 shown in the above table, the following issues, all payable in Canada, fall due in 1968-69:

Loan of 1967–68 due April 1, 1968	$ 175,000,000
Loan of 1950–68 due June 15, 1968	308,581,000
Loan of 1967–68 due June 15, 1968	160,000,000
Loan of 1963/64–68 due Oct. 1, 1968	441,000,000
Loan of 1967–68 due Oct. 1, 1968	20,000,000
Canada Savings Bonds due Nov. 1, 1968	710,305,000
Loan of 1967–68 due Dec. 15, 1968	125,000,000
	$ 1,939,886,000

Net Debt

236. With the Liabilities amounting to $32,924,170,000 (paragraph 226) and the Assets to $16,164,445,000 (paragraph 213), the Net Debt at March 31, 1968 was $16,759,725,000. The following is an analysis of the Net Debt Account for the year:

Balance at April 1, 1967		$ 15,964,950,000
Deficit for the year—		
Expenditure	$ 9,871,364,000	
Revenue	9,076,589,000	
		794,775,000
Balance at March 31, 1968		$ 16,759,725,000

Contingent Liabilities

237. A note on the Statement of Assets and Liabilities gives the totals of the several classes of contingent liabilities at the year-end and refers to page 7.88 of the Public Accounts (Volume I) where details are to be found.

The following is a summary of the contingent liabilities with determinate amounts outstanding at March 31, 1968 in comparison with the corresponding amounts at the close of the two previous years:

	March 31, 1968	March 31, 1967	March 31, 1966
Insured loans made by approved lenders under the National Housing Act, 1954	$ 6,311,000,000	$ 5,789,000,000	$ 5,321,621,000
Railway securities guaranteed as to principal and interest	1,197,181,000	1,275,948,000	1,331,548,000
Deposits maintained by the chartered banks in the Bank of Canada	935,782,000	1,148,002,000	1,031,322,000
Guarantees under Export Credits Insurance Act, Part 1	369,387,000	458,096,000	508,213,000
Loans made by chartered banks under various Acts	296,689,000	233,696,000	166,653,000
Notes issued by the Canadian Corporation for the 1967 World Exhibition	228,250,000	175,000,000	44,000,000
Loans made by chartered banks to the Canadian Wheat Board	141,414,000	329,018,000	232,037,000
Home improvement loans under the National Housing Act, 1954	20,209,000	18,693,000	17,341,000
	$ 9,499,912,000	$ 9,427,453,000	$ 8,652,735,000

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under National Housing Acts prior to 1954.

Comments on Assets and Liabilities

238. Section 64 of the Financial Administration Act requires that there be included in the Public Accounts "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

239. The Statement of Assets and Liabilities as at March 31, 1968 was prepared by the Department of Finance on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the Public Accounts:

> With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of $1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.
>
> On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the "Current and demand liabilities" schedule to the statement of assets and liabilities.

This explanation reflects a policy established by the Minister of Finance in 1920 that assets to be included in the Statement of Assets and Liabilities should be confined to those which are readily convertible or which are revenue-producing. The Minister had immediately implemented this policy by removing from the Statement of Assets and Liabilities a substantial amount in loans, etc., which could not meet this test.

This policy has been followed by successive Ministers of Finance ever since but a major exception was introduced in 1957-58 when funds required by the National Capital Commission for the purchase of lands in the Greenbelt were recorded as loans to the Commission instead of budgetary expenditure as had formerly been the case. They were given the appearance of being revenue-producing by asking Parliament to appropriate money to the National Capital Commission with which to pay interest on the loans.

Brief details of exceptions to established policy are as follows:

Loans to, and investments in, Crown corporations

CANADIAN BROADCASTING CORPORATION. Funds required by the Canadian Broadcasting Corporation for capital expenditure since April 1, 1964 have been provided in the form of loans. Loans outstanding at March 31, 1968 amounted to $74,125,000. Each loan is repayable by the Corporation in equal annual instalments over 20 years at interest rates varying from $5\frac{1}{4}\%$ to $6\frac{11}{16}\%$ per annum.

CANADIAN CORPORATION FOR THE 1967 WORLD EXHIBITION. The grants made to the Canadian Corporation for the 1967 World Exhibition by Canada, the Province of Quebec and the City of Montreal totalling $40 million were fully used by August 15, 1965 and since that time the Corporation's deficit has been financed by Canada through the purchase of securities issued by the Corporation and guaranteed by Canada and the Province and by means of bank loans similarly guaranteed, as authorized by section 12 of the Canadian Corporation for the 1967 World Exhibition Act, *1962-63, c.12*. The Corporation's indebtedness to Canada at March 31, 1968 amounted to $205,000,000. These loans are repayable in three equal annual instalments on the 30th day of June in each of the years 1968, 1969 and 1970 and bear interest varying from $4\frac{3}{4}\%$ to $5\frac{7}{8}\%$. The Corporation was unable to meet the payment of $68,333,333 due on June 30, 1968 and, as a consequence of this, a further principal amount of $80,566,667 was called in advance of the due date by the Minister of Finance with the concurrence of the Minister of Finance of Quebec. As the loans were guaranteed jointly by Canada and the Province of Quebec, the Province, pursuant to its guarantee, has delivered to Canada notes of the Province in the amount of $74,450,000 payable in 48 monthly instalments with interest at 5.46%.

The Corporation was also unable to repay its bank loans of $35 million which became due on June 30, 1968 and Canada and the Province of Quebec were each required to provide an additional $17.5 million under their joint guarantee. The amount provided by Canada is now recorded as an additional amount receivable from the Corporation.

NATIONAL CAPITAL COMMISSION. The funds required by the National Capital Commission for the purchase of Greenbelt lands and certain other lands have, since 1957-58, been provided in the form of loans from Canada. These loans, which amounted to $75,116,000 at March 31, 1968 and which bear interest at rates varying from 4% to $6\frac{7}{8}\%$, are repayable only if and when the properties are sold or put into use by the Government for other than Greenbelt purposes.

NORTHERN CANADA POWER COMMISSION

(a) An amount of $350,000 required by the Northern Canada Power Commission for the purpose of extending the utilidor system at Inuvik, N.W.T., was provided in the form of a loan in 1964. This loan bears no interest and the intention is that on completion of the extension to the utilidor system, the cost is to be covered by a parliamentary appropriation. The extension was completed in 1966 but the final cost of $378,500 was not billed to the Department of Indian Affairs and Northern Development until December 28, 1967. Furthermore, settlement has not yet been made.

(b) An amount of $300,000 required by the Commission for the purpose of reconstructing the water supply system at Dawson, Y.T., was provided in the form of a loan from Canada in January 1967. The loan bears no interest and on completion of the work is to be repaid from funds appropriated by Parliament as a grant to the Government of the Yukon Territory.

(c) An amount of $600,000 required by the Commission for the purpose of further extending the utilidor system at Inuvik, N.W.T., was provided in the form of a loan in 1968. This

loan bears no interest and the intention is that on completion the cost is to be covered by a parliamentary appropriation.

Other loans and investments

GOVERNMENT OF THE NORTHWEST TERRITORIES. Of the loans to the Government of the Northwest Territories, amounting to $12,781,000 at March 31, 1968, an aggregate of $10,754,000 represents loans made in the years 1959 to 1968 for capital expenditure purposes The loans are repayable over periods of from five to 20 years and bear interest at rate of from $4\frac{1}{8}\%$ to $6\frac{7}{8}\%$. By agreement, Canada pays an annual amortization subsidy equivalent to the principal and interest due each year, less all moneys repaid to the Territorial Government in the year by local administrative districts in respect of loans made to them by the Territories from moneys borrowed from Canada.

GOVERNMENT OF THE YUKON TERRITORY. Of the loans to the Government of the Yukon Territory amounting to $11,480,000 at March 31, 1968, an aggregate of $9,646,000 represent loans made during the years 1958 to 1968 for capital expenditure purposes. The loans are repayable over periods of from five to 30 years and bear interest at rates of from $4\frac{1}{8}\%$ to $6\frac{7}{8}\%$. By agreement, Canada pays an annual amortization subsidy equivalent to the principa and interest due each year, less all moneys repaid to the Territorial Government in the year by local administrative districts in respect of loans made to them by the Territory from moneys borrowed from Canada.

TOWN OF OROMOCTO, N.B. Capital assistance required by the Town of Oromocto wa provided in the form of loans from Canada in the years 1957 to 1967. The amount outstanding at March 31, 1968 was $3,869,000. The loans are repayable over a period o 20 years with interest at rates varying from 5% to $5\frac{7}{8}\%$. As the Town does not have th resources to pay either the principal instalments or the interest on these loans, the sourc of funds for these payments has been the annual operating grants made to the Town by the Department of National Defence.

The Public Accounts Committee, which holds the view that outlays on propert in the Greenbelt are expenditures of the Crown rather than income-producing investments, has on two occasions requested the Department of Finance to review the existin practice with the National Capital Commission with a view to placing the financin of the Commission on a more realistic basis. (See Appendix 1, item 18.) In its Sevent Report 1966-67 presented to the House on October 26, 1966, the Public Account Committee stated that it was disturbed to learn that not only was no review undertake by the Department of Finance in the case of the National Capital Commission, bu that the practice was continued and further extended in 1964-65 when the House wa asked to approve loans to the Canadian Broadcasting Corporation. The Committe reiterated its opinion that "expenditures of this type are not loans or advances whic can or should be regarded as revenue-producing assets but are in fact grants and shoul be charged directly to budgetary expenditure in the Public Accounts of Canada" (se Appendix 1, item 35).

With respect to the financing of the Canadian Corporation for the 1967 Worl Exhibition, the Committee included the following in its Seventh Report 1966-67 (se Appendix 1, item 36):

> The Committee recommends that amendments to the existing legislation be place before Parliament and the Legislature of the Province of Quebec so that the addition

grants required can be made by the parties concerned, namely Canada, Quebec and the City of Montreal. The Committee directs the attention of the House to the fact that unless these additional grants are provided, the Corporation's presently estimated total requirement of $143 million (less $40 million already provided by Canada, Quebec and Montreal) will have been financed by loans from Canada and the Corporation will be burdened with the cost of additional interest and at the conclusion of the Exhibition will not have the cash resources necessary for payment of its indebtedness to Canada.

Under the policy outlined at the beginning of this section, the cost of government buildings and other public works undertaken by government departments is charged to expenditure at the time of acquisition or construction because the departments are dependent on public revenues for their capital needs. The Crown corporations and other bodies referred to previously are also dependent on public revenues for their capital needs. The Canadian Corporation for the 1967 World Exhibition is similarly dependent on public revenues to cover its deficit, which amounted to $233 million at December 31, 1967 (see also paragraph 270 of this Report).

The practice of making loans of this type instead of grants has had the effect of understating the Deficit shown in the Public Accounts each year since 1958. To the extent that grants are made in later years to provide for repayment of the loans, the Deficit will increase or the Surplus decrease in those years.

240. *Accounts receivable.* Taxes and sundry accounts receivable are not recorded as assets in the Statement of Assets and Liabilities.

Information regarding the accounts receivable of each department at March 31, in comparison with the corresponding information at the close of the preceding year, is given in the several departmental sections of Volume II of the Public Accounts.

A summary of the accounts receivable totals by departments is included as Appendix 13 on page 9.27 of Volume I of the Public Accounts. This summary shows a total of $337,833,000 receivable at March 31, 1968 of which $17,131,000 is shown as uncollectable. The comparable figures for the previous year were $345,480,000 and $21,512,000 respectively.

The accounts receivable totals reported as at March 31, 1968 were the amounts remaining after certain uncollectable debts totalling $22,103,000 had been deleted from the accounts under the following authorities:

Appropriation Act No. 1, 1968, *1967-68, c. 34*—	
Treasury Board Vote 7c—amounts in excess of $1,000	$ 18,993,000
Financial Administration Act, *R.S., c. 116*—	
section 23—amounts of $1,000 or less	2,099,000
Bankruptcy Act, *R.S., c. 14*—	
section 135—discharged bankrupts	790,000
Unemployment Insurance Act, *1955, c. 50*—	
section 42—unpaid contributions	145,000
section 67—overpaid benefits	76,000
	$ 22,103,000

A summary of deletions by departments follows:

	Items	Total deleted
External Affairs	27	$ 9,000
Indian Affairs and Northern Development	493	63,000
Manpower and Immigration	45	124,000
National Defence	213	112,000
National Revenue—		
Customs and Excise Division	1,095	1,926,000
Taxation Division	19,961	19,572,000
Transport	1,888	6,000
Treasury Board	2	6,000
Unemployment Insurance Commission	3,459	222,000
Veterans Affairs	77	54,000
Other	154	9,000
		$ 22,103,000

In previous Reports we have drawn attention to the fact that some departments were not keeping their accounts receivable records accurately and efficiently in that they were not maintaining controlling accounts or providing for an effective verification of the accounts by officers other than those responsible for keeping them.

In last year's Report (paragraph 197) we stated that the Treasury Board hac developed a policy with respect to revenue control designed to eliminate the conditions referred to by the Auditor General, the Public Accounts Committee (in its Sixth Report 1964-65) and the Royal Commission on Government Organization. During the year we noted that, although most departments have established adequate controls over their accounts receivable, some have not yet fully adopted the procedures called for under the policy. As a consequence, weaknesses in internal control still exist.

Included in the accounts receivable are amounts totalling $4,702,000, compared with $2,069,000 in the previous year, representing intra- and inter-departmental accounts which should have been settled before the books were closed for the year. The accounts had not been settled because of delays by creditor departments in submitting billings delays by debtor departments in processing invoices, and insufficient funds in various departmental appropriations. This problem has been under review by the Treasury Board

This year for the first time the Department of National Revenue has included analyses of its accounts receivable in its annual report. In our opinion, other departments responsible for large groupings of accounts receivable should include similar analyse in the Public Accounts or their annual reports.

241. *Accounts receivable—Department of National Revenue.* Of the $338 million of accounts receivable at March 31, 1968, $295 million was applicable to the Departmen of National Revenue. With the co-operation of the officials of the Customs and Excise Division and the Taxation Division of the Department, analyses have been prepared showing the nature and amounts of the unpaid accounts of these Divisions.

CUSTOMS AND EXCISE DIVISION. The following is a summary of the accounts receivable of this Division at March 31, 1968 with comparable amounts at the close of the previous year:

	March 31, 1968	March 31, 1967
Excise taxes	$ 12,473,000	$ 16,870,000
Duties and taxes on importations	2,698,000	2,297,000
Customs seizures	1,011,000	712,000
Investigations	185,000	163,000
Inter-departmental	581,000	9,000
Sundry	9,000	15,000
	$ 16,957,000	$ 20,066,000

Of the total of $17 million, collection action is presently being taken on 10,538 accounts totalling $9 million. The remainder, $8 million, had not been collected for the following reasons:

Under appeal	1,926 accounts	$ 3,321,000
Insolvencies	1,043 accounts	4,179,000
Uncollectable	291 accounts	674,000
	3,260 accounts	$ 8,174,000

Further details of these accounts receivable are to be found in the report of the Department of National Revenue for the year ended March 31, 1968 and on page 29.13 of Volume II of the Public Accounts.

These accounts receivable do not represent all moneys owing to the Division at March 31, 1968. They do not include duties and taxes owing on goods that have been imported illegally where the Minister had not rendered a decision as to the penalties to be imposed, the unpaid portion of duties and taxes on certain temporary importations where approval for relief is being sought by Order in Council, and duties and taxes estimated at $43.6 million owing by motor vehicle manufacturers who failed to meet the conditions of the Motor Vehicles Tariff Order 1965 or similar Orders in Council applicable to particular companies. This amount is reported by the Department on page 29.13 of Volume II of the Public Accounts as being "contingent" and can be expected to increase materially when departmental audits covering all imports to March 31 have been completed. (See also paragraph 148 of this Report.) We are advised by the Department that it has used the term "contingent" because it considers there is a possibility that the amount may be remitted by the Governor in Council under section 22 of the Financial Administration Act.

There is no requirement that interest be charged on overdue accounts although a monthly penalty of $\frac{2}{3}$ of 1% is charged on overdue excise taxes.

In previous Reports (paragraph 198 in 1967) we have stated that the Customs and Excise Division was preparing to extend the system of control accounts to include all receivables. It has not yet accomplished this and there are control accounts only for excise taxes.

TAXATION DIVISION. The following is a summary of the accounts receivable of this Division at March 31, 1968 with comparable amounts at the close of the previous year:

	March 31, 1968	March 31, 1967
Income tax—		
Individuals	$ 122,017,000	$ 130,408,000
Corporations	116,959,000	124,677,000
Tax deductions	11,286,000	9,754,000
Non-residents	6,329,000	4,093,000
Deferred tax	5,099,000	5,431,000
	261,690,000	*274,363,000*
Estate tax and succession duty	15,903,000	13,345,000
Provincial income tax	1,000	1,000
Inter-departmental	27,000	—
Sundry	4,000	6,000
	$ 277,625,000	$ 287,715,000

Of the total of $278 million receivable at March 31, 1968, $85 million (30%) represents 130,000 current collectable accounts. The remainder, $193 million (over 90,000 accounts), had not been collected for the following reasons:

Under appeal	1,331 accounts	$ 135,997,000
Uncollectable	7,381 accounts	11,647,000
Current assessments	81,990 accounts	39,992,000
Deferred tax		5,099,000
Provincial income tax		1,000
		$ 192,736,000

Further details of these accounts receivable are to be found in the report of the Department of National Revenue for the year ended March 31, 1968.

242. *Accounts receivable—Department of External Affairs.* The accounts receivable of this Department include an amount of $1,387,000 owing to Canada from the fund known as the "Common Pool" established by the Geneva Conference on the problem of restoring peace in Indo-China. An additional amount of $1,143,000 is recoverable on behalf of the Department of National Defence by the Department of External Affairs. This total of $2,530,000 represents certain costs incurred by Canada as far back as 1960-61 in serving on the Indo-China Truce Commissions, which have not yet been recovered. No payment has been received from the "Common Pool" since February 1963 but Canada's assessments towards financing the Laos International Commission since 1962-63, amounting to $171,000, have been applied against the indebtedness.

We understand that the failure of The People's Republic of China to continue its contributions has resulted in the "Common Pool" being unable to pay all of the costs for which it is responsible.

No change in these arrangements occurred during 1967-68 and the recoverable balance increased by $294,000. As pointed out in our 1967 Report (paragraph 199), in the absence of any reimbursement from the "Common Pool" in recent years, new financing arrangements should be sought.

243. *Accounts receivable—Department of Indian Affairs and Northern Development.* The accounts receivable of this Department at March 31, 1968 amounted to $2,377,000, including uncollectable accounts of $475,000.

In our 1966 Report and again in 1967 (paragraph 200) we referred to shortcomings in the Department's handling of accounts receivable. On the latter occasion we reported that steps had been taken which were expected to result in improvement before March 31, 1968.

Our review of these accounts receivable at March 31, 1968 showed little improvement. It was again found necessary to request adjustment of the departmental compilation of outstanding items to reflect accrued interest, various debts and authorized deletions which had not been taken into account. The Department declined to correct its erroneous handling of the $20,000 made available to an Indian Band on a recoverable basis (see paragraph 98 of this Report).

Our earlier Reports (paragraph 200 in 1967) commented on a loan of $225,000 to the Banff Recreational Centre in 1961-62 in connection with construction of a building suitable for use as a curling rink. Although the loan was repayable in 20 equal annual instalments commencing November 1, 1966, with interest at 5¼% payable annually, the Centre's operations failed to produce sufficient revenue to permit any payment of principal or interest. During the year the Crown took the building over. The interest to October 31, 1963, $20,300, was deleted from the accounts and at March 31, 1968 the recorded indebtedness was $272,000, including the remaining interest arrears of $47,000. In 1968-69 the building was sold by Crown Assets Disposal Corporation to a district school authority for $95,000. The loss to the Crown on this transaction has consequently amounted to $130,000 plus interest of about $67,000.

244. *Cash on deposit in chartered banks.* Included in the item "Cash" is an amount of $1,016 million on deposit in bank accounts. Of this amount, $920 million was on deposit in the chartered banks in Canada, $85 million in the Bank of Canada and $11 million in banks in London, New York, Paris, Brussels and Bonn.

The balances on deposit in bank accounts abroad are working balances against which cheques are drawn and which do not earn interest. The Bank of Canada, in accordance with the provisions of section 19(e) of the Bank of Canada Act, *R.S., c.13,* does not pay interest on deposits. However, profits of the Bank of Canada are paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund.

Balances on deposit in the chartered banks in Canada earn interest only on the amounts by which the aggregate of the lowest daily balance for each bank in each week exceeds $100 million, calculated at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%. (See also paragraph 89 of this Report.)

245. *Departmental working capital advances.* This item amounting to $186,540,000 at March 31, 1968 appears in the Statement of Assets and Liabilities under the caption "Current assets". Included are a number of revolving funds established by various appropriation Acts and other legislation. The principles governing the operation of these revolving funds are reflected in the provisions of sections 58, 59 and 60 of the Financial Administration Act. Section 58 specifies the charges and credits which may be made to a revolving fund and the composition of the balance at the year-end. Subsection (5) of this section states that any surplus resulting from the operations of the fund shall be transferred from the revolving fund as revenue and that no amount may be credited to the fund to meet any deficiency in it without the authority of Parliament. The purpose of these provisions is to maintain working capital advances intact and to enable Parliament to exercise financial control over these funds.

Some of the practices followed in the operation of these funds do not conform to the principles established with respect to revolving funds. Examples are:

(a) The Queen's Printer's Advance Account operated by the Canadian Government Printing Bureau was charged with the cost of capital equipment amounting to $501,000 during the year as compared with $549,000 in the previous year. Prior to 1965-66 these costs were met from appropriations provided for that purpose but the present practice is to charge the full cost to production expense in the year of acquisition. The Deputy Attorney General has expressed the opinion that the term "material", referred to in section 37 of the Public Printing and Stationery Act, *R.S., c.226,* which provides for advances to enable the Queen's Printer "to purchase material for the execution of orders..." is sufficiently broad to include capital equipment. In our view such an interpretation of the term "material" is too broad when related to capital equipment having a useful life of many years, resulting as it does in the elimination of parliamentary control over capital expenditure of the Bureau.

(b) The National Film Board Operating Account, established by section 18 of the National Film Act, *R.S., c.185,* has been used to finance the purchase of capital equipment for the Canadian Government Photo Centre under the authority of Vote L30, Appropriation Act No. 5, 1963, *1963, c.42,* to the extent of $245,000 up to March 31, 1968, of which $96,000 has been recovered through charges for services rendered. In this case Parliament has surrendered its control over the capital expenditures of the Centre.

(c) The Central Data Processing Service Bureau was authorized by Vote L99e, Appropriation Act No. 4, 1966, *1966-67, c.6,* to operate a working capital advance account to finance the provision of data processing and related services to government departments and agencies. At March 31, 1968 the operating account had been charged with capital expenditures of $202,000 although there is no specific reference to capital equipment in the vote wording. An operating loss of $260,000 remains as part of the balance of the account, having been reduced by the net profit of $2,000 for the year. The balance is expected to be recovered from user departments and agencies in future years.

From examples (b) and (c) it may be seen that "Departmental working capital advances" which are classified as "Current assets" in the Statement of Assets and Liabilities include capital expenditures and operating deficits, neither of which are current assets (see also paragraph 58 of this Report).

246. *Departmental working capital advances—Defence Production Revolving Fund.* In paragraph 64 of our 1967 Report reference was made to two losses which have been or are going to be incurred in connection with strategic materials financed by the Defence Production Revolving Fund. These are:

1. The inventory of raw quartz crystals on hand at March 31, 1968, had a cost value of \$6,081,000. Synthetic quartz crystals have come into general use since the inventory was acquired in the early 1950s, practically eliminating the demand for natural quartz. The proceeds of a few test sales during 1966-67 averaged 22% of original cost and it would appear that there will be a loss of at least \$4.5 million.
2. A shortage of \$1,140,000 with respect to cobalt stolen several years ago is revealed by the balance sheet of the Revolving Fund. Amounts totalling \$49,000 had been recovered to March 31, 1968 and further recoveries are expected. However, it appears inevitable that there will be an ultimate loss of not less than \$600,000.

247. *Departmental working capital advances—Agricultural Commodities Stabilization Account.* The operations of the Agricultural Stabilization Board during the year resulted in a loss of \$145,178,000. This loss was met to the extent of \$139,743,000 by funds provided by Department of Agriculture Vote 17 and to the extent of \$3,959,000 by government departments which provided major services without charge (see paragraph 296 of this Report). The balance of the loss amounting to \$1,476,000 remains as a charge to the Agricultural Commodities Stabilization Account and together with a liability item for a customer's deposit of \$74,000 makes up the balance of \$1,402,000 at March 31, 1968. This amount appears as a current asset item (see paragraph 214 of this Report) although it includes the loss of \$1,476,000 which must eventually be charged to budgetary expenditure (see also paragraph 57 of this Report).

248. *Departmental working capital advances—Fisheries Prices Support Account.* During the year the Fisheries Prices Support Board incurred a loss of \$552,000 in connection with its support programs. This amount, together with accumulated losses of \$211,000 under other programs extending back to 1962-63, remained as a charge to the Fisheries Prices Support Account and is included in the balance of \$842,000 at March 31, 1968. This amount appears as a current asset item (see paragraph 214 of this Report) although to the extent of \$763,000 it represents a loss which must eventually be written off to expenditure (see also paragraph 305 of this Report).

249. *Loans to, and investments in, Crown corporations—Atomic Energy of Canada Limited.* Included in the loans to Atomic Energy of Canada Limited amounting to \$123,915,000 are loans totalling \$69,945,000, excluding accrued interest of \$7,651,000, made with respect to the construction by Atomic Energy of Canada Limited, in co-operation with the Hydro-Electric Power Commission of Ontario, of the Douglas Point Nuclear Power Station. This station is operated by the Commission which buys the electricity produced at the same rate it pays for electricity procured from inter-connected systems. After the station has been established to be a safe and dependable source of power, it

will be sold to the Commission at a price calculated to make the estimated future cost of energy produced equal to that from a fossil-fired conventional thermal generating station. Whether the purchase price will be sufficient to permit the company to repay the loans remains to be determined.

250. *Loans to national governments.* Since 1964-65 appropriation Acts have authorized a total of $240 million in special loan assistance for developing countries and agreements to lend have been entered into with 19 countries. At March 31, 1968 loans amounting to $44,105,000 had been made to 13 countries, an increase of $29,051,000 in the year. Loans amounting to $20,185,000 bear interest at $\frac{3}{4}$ of 1% per annum on the amount of the loans committed less repayments, and are repayable over a period of 40 years following a grace period of 10 years from the date of execution of each agreement. Loans amounting to $20,167,000 are interest-free and are also repayable over a period of 40 years following a grace period of 10 years. Loans for $3,424,000 bear 6% interest and are repayable over a period of 23 years following a grace period of seven years. The $329,000 balance of the loans bears 3% interest and is also repayable over 23 years following a grace period of seven years.

251. *Other loans and investments—Subscription to capital of the International Monetary Fund.* As a member of the International Monetary Fund Canada's quota is $800,000,000, equivalent to $740,000,000 US at the official exchange rate of $1 Canadian= $.925 US. In February 1968 Canada found it necessary to draw foreign currencies from the International Monetary Fund almost to the full extent of her quota with the result that at March 31, 1968 her quota of $800,000,000 was held by the International Monetary Fund as follows:

Gold	$ 105,990
Canadian currency	8,894,010
Non-interest-bearing demand notes	791,000,000
	$ 800,000,000

While Canada's indebtedness to the International Monetary Fund, $791,000,000, is properly shown as this amount among the current and demand liabilities at March 31, 1968, her investment in the Fund, of which her indebtedness forms a part, is recorded among the "Other loans and investments" at an amount of only $782,655,000 at March 31, 1968, which is $17,345,000 less than her quota or subscription of $800,000,000 at that date.

252. *Other loans and investments—Other balances—Department of Energy, Mines and Resources.* In previous Reports (paragraph 205 in 1967) we have drawn attention to arrears of principal and interest on loans made under the provisions of the Coal Production Assistance Act, *R.S., c.173,* administered by the Dominion Coal Board. Reference was made to one company which at March 31, 1967 was in arrears $2,050,000 on principal

and $471,000 on interest. Although this company received $24,767,000 in that year for payments in connection with the movement of coal, no recovery of any portion of the arrears had been sought by means of set-off.

Loans totalling $7,261,000 were made to this company in the period November 1950 to July 1963. Interest was paid along with instalments of principal until June 30, 1964 at which time the outstanding balance of principal stood at $4,522,000. No payment of principal or interest has been made since that date and at March 31, 1968 principal payments in arrears amounted to $2,854,000. Interest in arrears, which is recorded in memorandum form only, amounted to a further $673,000 at that date.

During 1967-68 the company received $19,852,000 in connection with the movement of coal and consideration was given to recovery of arrears from these payments but nothing came of this.

The Cape Breton Development Corporation, a Crown corporation which commenced operations in October 1967, is presently engaged in taking over certain of the company's properties and operations.

253. *Deposit and trust accounts—"Other"—Public Officers Guarantee Account.* The Public Officers Guarantee Account, established by section 98 of the Financial Administration Act, provides that payments may be made from the Account by way of indemnity for losses suffered by Her Majesty or others by reason of defalcations or other fraudulent acts or omissions of public officers. The Treasury Board on January 19, 1967 directed that unless losses due to defalcations could be recovered in the fiscal year in which they occur, the Board's authority to reimburse the losses from the Account was to be sought before the year-end.

Twelve losses amounting to $128,301 were charged to the Account during the year, of which 11 amounting to $122,591 had occurred in prior years. An additional eight losses totalling $13,153 which occurred in prior years and four amounting to $617 which occurred during the year had yet to be charged to the Account at the year-end.

254. *Annuity, insurance and pension accounts—Superannuation Accounts.*

PUBLIC SERVICE. Section 33 of the Public Service Superannuation Act, *1952-53, c.47*, requires that at least once in every five years an actuarial report on the state of the Public Service Superannuation Account be laid before Parliament. The latest valuation of the Account was at December 31, 1962. We understand that an actuarial valuation as at December 31, 1967 is being made.

CANADIAN FORCES. Section 25 of the Canadian Forces Superannuation Act, *1959, c.21*, requires that at least once in every five years an actuarial report on the state of the Canadian Forces Superannuation Account be laid before Parliament.

On September 12, 1968 a report was tabled showing that an estimated deficit of $58.7 million existed in the Account at December 31, 1965. This deficit was attributed almost entirely to the effect of the difference between the actual number of contributors released with return-of-contribution benefits and the number that it was anticipated would be released in the period 1961 to 1965.

This amount remains to be credited to the Account in accordance with section 24(3) of the Act.

255. *Contingent liabilities.* A listing of the contingent liabilities of Canada appears on page 7.88 of Volume I of the Public Accounts. Included is an amount of $228,250,000 representing notes of the Canadian Corporation for the 1967 World Exhibition which are guaranteed jointly by Canada and the Province of Quebec. These notes were payable, $205 million to Canada and $23,250,000 to chartered banks. As Canada is both guarantor and holder of the notes amounting to $205 million, the amount is not a contingent liability of Canada.

The notes issued by the Canadian Corporation for the 1967 World Exhibition and held by chartered banks at March 31, 1968 together with notes of $11,750,000 issued subsequently were payable on June 30, 1968. When these notes matured the Corporation was unable to meet them and Canada and the Province of Quebec were each required to provide an amount of $11,625,000 in satisfaction of their guarantees as at March 31, 1968 and $5,875,000 with respect to guarantees given subsequently. Canada thus holds additional notes of the Corporation amounting to $17,500,000.

Crown Corporations

256. A Crown corporation, as defined by section 76(1)(*c*) of the Financial Administration Act, is a corporation that is ultimately accountable, through a Minister, to Parliament for the conduct of its affairs. Departmental corporations are named in Schedule B to the Act and are responsible for administrative, supervisory or regulatory services of a governmental nature. Agency corporations are named in Schedule C and are responsible for the management of trading or service operations on a quasi-commercial basis or for the management of procurement, construction or disposal activities on behalf of the Crown. Proprietary corporations are named in Schedule D and are responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.

257. The following paragraphs are concerned with agency and proprietary corporations to which sections 77 to 88 of the Act apply and certain other Crown corporations which have not been named in any of the Schedules to the Act.

258. Section 85 of the Act requires each corporation to prepare, in respect of each financial year, a balance sheet, a statement of income and expense and a statement of surplus containing such information as, in the case of a company incorporated under the Canada Corporations Act, *R.S., c.53,* is required to be laid before the company by the directors at an annual meeting.

259. Section 87 of the Act requires the auditor of a Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the corporation and to state in his report whether in his opinion:

(*a*) proper books of account have been kept by the corporation;

(*b*) the financial statements of the corporation

- (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
- (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and
- (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and

(*c*) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation.

n addition, the auditor is required to call attention to any other matter falling within he scope of his examination that in his opinion should be brought to the attention f Parliament.

260. Section 87 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and section 85 directs that such annual report be submitted to the appropriate Minister within three months after the termination of each financial year and that it be laid before Parliament by the Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume III of the Public Accounts.

261. The Auditor General is the auditor of the following Crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1968:

Corporation	Class	Reporting Minister
Atomic Energy of Canada Limited	Agency	Energy, Mines and Resources
Canada Deposit Insurance Corporation	Proprietary	Finance
Canadian Arsenals Limited	Agency	Defence Production
Canadian Broadcasting Corporation	Proprietary	Secretary of State
Canadian Commercial Corporation	Agency	Defence Production
Canadian Corporation for the 1967 World Exhibition		Trade and Commerce
Canadian Film Development Corporation	Agency	Secretary of State
Canadian Livestock Feed Board	Agency	Agriculture
Canadian National (West Indies) Steamships, Limited	Agency	Transport
Canadian Overseas Telecommunication Corporation	Proprietary	Postmaster General
Canadian Patents and Development Limited	Agency	Chairman of the Committee of the Privy Council on Scientific and Industrial Research
Centennial Commission	Agency	Secretary of State
Cornwall International Bridge Company Limited	Proprietary	Transport
Crown Assets Disposal Corporation	Agency	Defence Production
Defence Construction (1951) Limited	Agency	National Defence
Eldorado Aviation Limited	Proprietary	Energy, Mines and Resources
Eldorado Mining and Refining Limited	Proprietary	Energy, Mines and Resources
Export Credits Insurance Corporation	Proprietary	Trade and Commerce
Farm Credit Corporation	Proprietary	Agriculture
The National Battlefields Commission	Agency	Indian Affairs and Northern Development
National Capital Commission	Agency	Hon. Jean Marchand
National Harbours Board	Agency	Transport
Northern Canada Power Commission and subsidiary companies	Agency	Indian Affairs and Northern Development

Corporation	Class	Reporting Minister
Northern Transportation Company Limited and subsidiary companies	Proprietary	Indian Affairs and Northern Development
Polymer Corporation Limited and subsidiary companies	Proprietary	Defence Production
The St. Lawrence Seaway Authority	Proprietary	Transport
The Seaway International Bridge Corporation, Ltd.	Proprietary	Transport

262. A firm of chartered accountants has been the auditor of the Canadian Dairy Commission since inception to March 31, 1968. However, on October 29, 1968 the Governor in Council designated the Auditor General of Canada as the auditor of the Commission with effect from April 1, 1968.

263. Since the Auditor General has not been appointed the auditor or the joint auditor of the following Crown corporations and public instrumentalities their accounts were not examined by him during the year:

Corporation or Instrumentality	Class	Reporting Minister
Air Canada	Proprietary	Transport
Bank of Canada		Finance
Canadian National Railways	Proprietary	Transport
The Canadian National Railways Securities Trust	Proprietary	Transport
The Canadian Wheat Board		Trade and Commerce
Cape Breton Development Corporation ..	Proprietary	Energy, Mines and Resources
Central Mortgage and Housing Corporation	Proprietary	Hon. Paul Hellyer
The Company of Young Canadians		Hon. Gérard Pelletier
Industrial Development Bank		Finance

In its Eleventh Report 1966-67 the Public Accounts Committee again repeated its recommendation that the Auditor General be appointed the auditor or the joint auditor of these corporations or instrumentalities (see Appendix 1, items 27 and 45).

264. The paragraphs that follow deal with the various corporations audited by the Auditor General. In each case an introductory comment describes briefly the origin of the corporation and the nature of its activity followed by comments regarding the Crown's equity in the corporation, a summary of the operations for the year in comparison with the preceding year, and any other matter which might be of interest to the House of Commons.

265. *Atomic Energy of Canada Limited.* This Company was incorporated in 1952 under the Canada Corporations Act, *R.S., c.53,* pursuant to authority contained in the

Atomic Energy Control Act, *R.S., c.11,* to carry out research and development in nuclear power technology and allied fields and to promote uses of atomic energy.

The head office of the Company is in Ottawa. Nuclear generating stations are maintained at Rolphton, Ont., and Douglas Point, Ont., and are under construction on cost-sharing bases at Gentilly, Que., and Pickering, Ont. Nuclear reactors and research and development laboratories are maintained at Chalk River, Ont., and at the Whiteshell establishment in Manitoba. Shopping centres, housing, staff hotels, and hospitals at Deep River, Ont., and Pinawa, Man., were constructed for the employees of the Chalk River nuclear laboratories and the Whiteshell establishment. A Power Projects group, located in Toronto, is responsible for the engineering, development, construction and management of nuclear power generating projects. Radioisotopes produced in the Company's reactors, and equipment designed and built by the Company to use these radioisotopes, are marketed throughout the world. Under specific parliamentary authority, transmission lines in connection with the Nelson River power project are being erected in accordance with an agreement between Canada and the Province of Manitoba.

The accumulated costs of the Company's research facilities which were charged to research expense and financed by parliamentary appropriations amounted to $214,656,000 at March 31, 1968.

The Crown's equity in the Company at March 31, 1968 totalled $150,371,000 comprising: loans and accumulated interest for the Douglas Point generating station, $77,596,000, Pickering generating station, $18,450,000, Gentilly nuclear power station, $15,422,000, housing projects and commercial buildings, $15,593,000, and the Nelson River transmission line, $6,153,000; capital stock, $15,000,000; and retained earnings, $2,157,000.

The Douglas Point generating station went into operation on November 15, 1966. The Hydro-Electric Power Commission of Ontario operates the station for the Company and buys the electricity produced at the same rate it pays for energy procured from inter-connected systems. When the plant has proved itself a safe and dependable source of power, the Commission will buy it at a price calculated to make the estimated future cost of energy produced equal to that from a fossil-fired conventional thermal generating station.

The station had two major shut-downs during the year with the result that full operation was delayed until December 1967. Expenditures in the current year amounted to $7,343,000, comprising $3,997,000 financed by loans from Canada and $3,346,000 charged to the Company's research program. In addition, design, engineering and commissioning costs of approximately $12 million were written off in previous years as incurred.

The cost of the station to March 31, 1968 has amounted to $93 million of which $78 million has been financed by loans from Canada and $15 million has been charged to research. Inasmuch as the station will eventually be sold to the Hydro-Electric Power Commission at a price to be calculated in accordance with the prescribed formula, it remains to be determined whether the purchase price will be sufficient to permit the Company to repay the loans.

A comparative summary of income and expense for the past two years follows:

	Year ended March 31 1968	1967
Research program—		
Operating expense	$ 67,987,000	$ 55,495,000
Gross income from engineering services, housing accommodation, hospitals, sales of steam, etc.	11,104,000	7,804,000
Excess of expense over income, provided for by parliamentary appropriation	$ 56,883,000	$ 47,691,000
Capital expenditures provided for by:		
Parliamentary appropriation	$ 9,617,000	$ 10,292,000
Retained earnings	3,004,000	3,613,000
	$ 12,621,000	$ 13,905,000
Commercial operations—		
Income	$ 9,321,000	$ 8,312,000
Expense:		
Cost of sales	4,974,000	3,829,000
Research, selling and administration	4,257,000	4,122,000
	9,231,000	7,951,000
Excess of income over expense	$ 90,000	$ 361,000

The increase of $12,492,000 in research operating expense results from a continued expansion in the activities of the Company and an increase in costs of goods and services, mainly: salaries and wages, including employee benefits, $5,377,000; professional and special services, $3,603,000; materials and supplies, $1,287,000; and expendable equipment, $1,117,000.

The increase of $3,300,000 in gross income from engineering services, housing accommodation, hospitals, sales of steam, etc., is mainly due to increased development and design services for the nuclear-steam generating portion of the Pickering generating station for which the Company is reimbursed.

266. *Canada Deposit Insurance Corporation.* This Corporation was established by the Canada Deposit Insurance Corporation Act, *1966-67, c.70,* with an authorized capital of $10 million, to provide, for the benefit of persons having deposits, deposit insurance for federally incorporated institutions, and for those provincially incorporated institutions with which the Corporation enters into contracts, and to accumulate, manage and invest a Deposit Insurance Fund and any other funds accumulated as a result of its operations. The head office of the Corporation is in Ottawa.

The Corporation is administered by a Board of Directors consisting of the Chairman, appointed by the Governor in Council, and the incumbents of the offices of the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Insurance and the Inspector General of Banks. The Corporation commenced operations on April 17, 1967 and from this date, and to the extent provided for by section 13 of the Act, the deposits with all federal institutions were automatically insured and certificates of

deposit insurance were issued in the prescribed form to each such institution. The deposits with provincial institutions were to be insured on application by them, with the approval of the province of incorporation, if certain prescribed conditions were met. On the basis of returns made by member institutions during 1967, deposits insured by the Corporation totalled $17.1 billion comprising $15.9 billion in federal institutions and $1.2 billion in provincial institutions. Of the deposits insured for provincial institutions, $1 billion was covered by indemnity agreements with two provinces.

Sections 21 and 22 of the Act require the examination of the affairs of member institutions at least once in each year. At December 31, 1967 there were 69 member institutions comprising 10 banks, 17 federally and 7 provincially incorporated trust and loan companies supervised for many years by the federal Superintendent of Insurance, one new federal trust company formerly under a provincial charter, and 34 other provincially incorporated trust and loan companies. The 10 banks were examined and reported on by the Inspector General of Banks and the 17 federally incorporated trust and loan companies by the Superintendent of Insurance. Although no formal reports were issued by the Superintendent of Insurance on the remaining 42 companies, he did provide sufficient information to permit the Corporation to enter into contracts of deposit insurance with them.

The Crown's equity in the Corporation at December 31, 1967 totalled $25,674,000 comprising capital stock, $10,000,000, loans, $15,350,000 and accrued interest, $324,000.

The loans were made to the Corporation in accordance with the provisions of section 34 of the Act and were advanced in turn to a member institution under the authority provided by section 11. This amount was covered by collateral in the form of securities having a face value of approximately $17 million at the time the advance was made. A further $4 million was loaned by Canada and advanced to the same member institution in January 1968 against securities having a face value of approximately $4.5 million.

The premiums that were assessed members, amounting to $5,691,000 in respect of the premium year ending April 30, 1968, were credited to the Deposit Insurance Fund.

Accumulated net earnings at December 31, 1967 amounted to $371,000, being the excess of income over expense for the period from April 17, 1967 to December 31, 1967, summarized as follows:

Income—	
Interest on investments	$ 414,000
Interest on loans under section 11 of the Act	396,000
	810,000
Expense—	
Interest on loans under section 34 of the Act	324,000
Inspection fees and expenses	82,000
Salaries and employee benefits	20,000
Advertising	6,000
Rent	2,000
Other	5,000
	439,000
Excess of income over expense	$ 371,000

The Corporation has been designated a proprietary corporation and as such is subject to income tax. However, Order in Council P.C. 1968-10/585 of March 28, 1968 remitted, under section 22 of the Financial Administration Act, any income tax payable by the Corporation.

267. *Canadian Arsenals Limited.* This Company, with its head office in Ottawa, was incorporated under the Canada Corporations Act, *R.S., c.53,* pursuant to authority contained in the Department of Reconstruction Act, 1944, *1944-45, c.18.* The main objects of the Company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and equipment.

At March 31, 1968 the Crown's equity in the Company was $6,463,000, comprising a working capital advance of $5,000,000 and advances totalling $1,497,000 from the Department of National Defence in respect of purchases, less an operating loss for the year of $34,000.

During the year the Company was the custodian of and operated two Crown-owned plants which cost $34.6 million. The operating results for the past two years are shown in the following comparative summary:

	Year ended March 31	
	1968	1967
Income—		
Sales	$ 6,591,000	$ 7,004,000
Miscellaneous	380,000	471,000
	6,971,000	7,475,000
Expense—		
Cost of sales including indirect labour and other overhead absorbed	6,480,000	6,714,000
Indirect labour and other overhead not absorbed in cost of sales	233,000	1,090,000
Plant shut-down costs	—	210,000
Administration	292,000	294,000
	7,005,000	8,308,000
Excess of expense over income	$ 34,000	$ 833,000

The decrease of $857,000 in indirect labour and other overhead not absorbed in cost of sales was due to increased production at the Filling and Small Arms Divisions resulting in their capability to absorb a high proportion of their overhead. Furthermore, there was no unabsorbed overhead comparable to an amount of $235,000 experienced during the last year of operation of the Dominion Arsenal Division prior to its sale in December 1966.

In June 1966 the Company contracted to manufacture 5,900 rifles for the Department of Defence Production at a fixed price. By mutual agreement, production was delayed from time to time to permit the fulfilment of other contracts with greater priority. A loss of $240,000 resulted because of significant variances between actual costs and those contemplated at the time the selling price was determined. Of this amount $208,000, applicable to the work performed on the contract to March 31, 1968, was absorbed in the cost of sales for the year.

The Company engaged a realtor to obtain a tenant for unused portions of its premises at Long Branch, Ont. In April 1968 the tenant, being in default in payments

of rent, was evicted. The portion of the realtor's commission, $4,600, that related to the unexpired portion of the lease represents a non-productive payment (see paragraph 211, item 1, of this Report).

268. *Canadian Broadcasting Corporation.* This Corporation, established in 1936 by the Canadian Broadcasting Act, *R.S., c.32,* which was superseded by the Broadcasting Act, *1958, c.22,* operates national television and radio broadcasting services and administers an international shortwave service on behalf of Canada. The head office is in Ottawa and regional offices are located in St. John's, Halifax, Quebec, Montreal, Ottawa, Toronto, Winnipeg, Edmonton and Vancouver.

Prior to 1964-65 the Corporation derived funds, for both its capital and operating requirements in excess of advertising revenue, from grants provided by parliamentary appropriations. Subsequently, however, funds for capital requirements have been provided by means of loans from Canada. Loan indebtedness at March 31, 1967 amounted to $55,715,000 of which $2,890,000 was repaid in 1967-68. Additional loans of $21,300,000 in 1967-68 increased the amount outstanding at March 31, 1968 to $74,125,000. Each loan is repayable in 20 equal annual instalments with interest rates varying from $5\frac{1}{4}$% to $6\frac{11}{16}$% per annum (see paragraph 239 of this Report).

At March 31, 1968 the Crown's equity in the Corporation was $103,304,000 represented by working capital of $15,386,000 (including an unspent balance of $386,000 with respect to capital loans) and the net book value of capital assets amounting to $87,918,000.

Our statutory report to the Secretary of State dated June 10, 1968 contained a qualification in respect of a resolution by the Board of Directors granting a retiring allowance to the President equivalent to six months salary. In our opinion, this was not within the competence of the directors of the Corporation and payment of the retiring allowance purported to be granted thereby was not within the powers of the Corporation under the Broadcasting Act.

A summary of the source and disposition of the Corporation's funds in 1967-68 follows:

Source—		
Parliamentary appropriations:		
Operating grant	$ 139,503,000	
Loans for capital expenditure	21,300,000	
	160,803,000	
Advertising revenue	38,734,000	
Depreciation	9,072,000	
Miscellaneous—including proceeds from sales of assets	1,621,000	
		$ 210,230,000
Disposition—		
Total operating expense	$ 185,885,000	
Repayment of capital loans	2,890,000	
Additions to capital assets	21,212,000	
	209,987,000	
Increase in working capital	243,000	
		$ 210,230,000

The following is a summary of the net cost of operations for the past two years:

	Year ended March 31	
	1968	1967
Expense—		
Cost of production and distribution:		
Programs	$ 119,439,000	$ 98,002,000
Network distribution	14,138,000	12,149,000
Station transmission	7,828,000	5,906,000
Payments to private stations	5,464,000	5,010,000
Commissions to agencies and networks	4,436,000	4,144,000
	151,305,000	125,211,000
Operational supervision and services	14,382,000	13,062,000
Radio and television broadcasting services at Canadian Universal and International Exhibition, Montreal, 1967	3,921,000	2,691,000
Emergency broadcasting	1,008,000	931,000
	170,616,000	141,895,000
Selling and general administration	11,509,000	10,143,000
Interest on loans to finance the acquisition of capital assets	3,760,000	2,203,000
	185,885,000	154,241,000
Income—		
Advertising revenue, etc	40,200,000	36,196,000
Net cost of operations	$ 145,685,000	$ 118,045,000

The parliamentary grant of $139,503,000, Canadian Broadcasting Corporation Vote 1, provided for the net expense of $145,685,000 as shown above, and an amount of $2,890,000 required for repayment of capital loans, less depreciation of $9,072,000 which was recorded for cost ascertainment purposes.

There was an increase in almost every classification of expenditure. Salaries and wages increased by $10,459,000 due mainly to: built-in increases representing the delayed impact of rate changes in the previous year and changes negotiated to take effect in 1967-68 together with merit increases and adjustments as a result of job evaluation, $7,996,000; additional staff at various centres, including the 1967 World Exhibition, because of increased activities during Centennial Year, $1,644,000; and overtime, $587,000. Other classifications in which there were substantial increases were: cost of film purchases and rentals, $1,895,000; microwave and transmission lines, $1,569,000; recording and film processing $1,462,000; and cost of building rental and maintenance, $1,292,000.

Loans by Canada to finance the acquisition of capital assets amounted to $21,300,000. An unexpended balance of $143,000 remained from loans obtained the previous year and $155,000 was realized on sale of assets. The sum of $21,212,000 was expended, leaving a balance at March 31, 1968 of $386,000. Major classifications of capital expenditure included: improvements to coverage, $6,500,000 (television rebroadcasting stations at various locations, $3,200,000, increase of power at existing stations and relocation of

facilities, $1,400,000, new radio studios and offices, $1,200,000); work done on consolida tion projects, $3,700,000 (Place Radio Canada, Montreal, $3,180,000, Vancouver site $370,000); conversion of existing facilities for broadcasting in colour, $1,400,000; Cen tennial technical facilities, $1,190,000; and other additions to plant and facilities $6,070,000 (mobile equipment, $2,500,000, Ottawa television studio, $1,194,000). Th accumulated cost, $139,689,000, of capital assets included $17,031,000 expended during th past nine years in connection with the planned consolidation of facilities in Montrea Ottawa, Toronto, Winnipeg and Vancouver. The Corporation's estimate at March 31, 196 of the future cost of consolidation of facilities was $157,745,000 of which, subject to th provision of funds by Parliament for the purpose, approximately $4,150,000 will b expended during the year ending March 31, 1969 and $153,595,000 in subsequent years.

In our Reports to management and to the House in recent years, we have com mented on the Corporation's physical inventory of its capital assets. This inventory wa completed in July 1967 and substantially reconciled with the inventory records. Th difference between the value of the assets physically counted and the value of the asset recorded in the Corporation's accounts amounted to $1,005,000 and was written off t Proprietor's Equity Account.

In previous Reports (1967, paragraph 60) we have noted that the cost of program included payments to employees for scheduled hours which were in excess of the actua hours of attendance during daily or weekly tours of duty. We have confirmed that th situation continued during 1967-68. (See paragraph 64 of this Report.)

We reported last year (paragraph 169, item 1) that, because of an anticipate shortage of hotel accommodation in the City of Montreal during the 1967 World Exhib tion, the Corporation entered into contracts with three hotels to ensure accommodatio for its personnel travelling to Montreal on business and that the accommodation remaine unoccupied for lengthy periods. The cost of the unoccupied accommodation for th period January 1 to October 31, 1967 was $148,000. A survey revealed that at the sam time that these facilities were not being fully used, accommodation in other hote costing approximately $40,000 was occupied by Corporation employees. (See paragrap 63 of this Report.)

The cost of programs available for advertising and advertising revenue earne thereon were shown in a note to the financial statements as follows:

	1967–68	1966–67
Programs which carried advertising	$ 43,088,000	$ 35,338,000
Programs available but which did not carry advertising	32,953,000	28,243,000
Program and related costs (exclusive of operational supervision, selling and general administration)	$ 76,041,000	$ 63,581,000
Advertising revenue—gross	$ 38,734,000	$ 35,153,000

The net cost of programs with advertising potential in 1967-68 was therefo $37,307,000 which was financed by the parliamentary operating grant.

Expenditures incurred in connection with future programs are recorded as current assets of the Corporation until such time as the programs are broadcast. These assets were as follows:

	March 31, 1968	March 31, 1967
Programs completed and in process of production	$ 7,881,000	$ 10,790,000
Film and script rights	3,525,000	3,974,000
	$ 11,406,000	$ 14,764,000

The decreases in 1968 were due mainly to the broadcasting of special programs, many in colour, during Centennial Year.

The balances shown in the above tabulation are after giving effect to the following write-offs:

	1967–68	1966–67
Programs completed and in process of production—cost of programs which were unsuitable because of technical difficulties, scheduling changes, pre-emptions, inferior quality, etc.	$ 1,078,000	$ 231,000
Film rights—unsuitable, inferior quality, expiry of right	355,000	68,000
Script rights—unsuitable, inferior quality, expiry of right	186,000	21,000
	$ 1,619,000	$ 320,000

269. *Canadian Commercial Corporation.* This Corporation, which was established in 1946 by the Canadian Commercial Corporation Act, *R.S., c.35*, provides procurement services in Canada for the governments of other countries and for international organizations. During the year the Corporation's purchases on behalf of its customers totalled $247 million compared with $212 million in the preceding year.

The Crown's equity in the Corporation at March 31, 1968 was $16,905,000, consisting of a $10,000,000 working capital advance, a $6,500,000 interest-bearing loan, a $182,000 reserve for United States exchange, and a $223,000 reserve for contingencies.

A comparative summary of the Corporation's operations for the past two years follows:

	Year ended March 31	
	1968	1967
Income—		
Interest earned on:		
Investments	$ 128,000	$ 129,000
Special advances to suppliers	108,000	—
	236,000	129,000
Less: Interest on loans from Canada	123,000	—
	113,000	129,000
Surcharges	2,000	2,000
	115,000	131,000
Expense—		
Estimated cost of administrative services	2,740,000	2,400,000
Excess of expense over income	$ 2,625,000	$ 2,269,000

This year the Department of Defence Production was reimbursed $2,045,000 t cover the estimated value of services provided to the Corporation.

The excess of expense over income for the year of $2,625,000 was met to the exten of $2,045,000 by Department of Defence Production Vote 50, and to the extent o $580,000 by other government departments which provided major services without charge The expense figures for 1967 have been adjusted for comparative purposes.

The Corporation has been authorized by the Governor in Council to borrow fron the Consolidated Revenue Fund at interest rates to be set by the Minister of Finance To March 31, 1968 the Corporation had borrowed working capital of $6.5 million t finance an increasing volume of business, and to enable it to make special advance which totalled $3.7 million. Special advances of $3 million to two contractors bor interest at current rates while the remainder advanced to a third was interest-free.

A footnote on the Balance Sheet at March 31, 1968 draws attention to certain risk involved in a large contract negotiated on a ceiling price basis with a foreign governmen customer which may ultimately result in a loss to the Corporation.

270. *Canadian Corporation for the 1967 World Exhibition.* This Corporation wa established by the Canadian Corporation for the 1967 World Exhibition Act, *1962-63 c.12,* for the purposes of planning, organizing, holding and administering the Canadia Universal and International Exhibition, Montreal, 1967. An Act respecting the Canadia World Exhibition, passed by the Quebec Legislature in 1963, provides authority for th Province of Quebec and the City of Montreal to share with the Government of Canad in the financing of the Corporation.

The Corporation consists of a Commissioner General, a Deputy Commissione General and fourteen other directors appointed by the Governor in Council, seven o whom are appointed on the recommendation of the Lieutenant-Governor in Council o the Province of Quebec.

Section 17 of the Act requires that the accounts and financial transactions of th Corporation be audited by the Auditor General of Canada and the Quebec Provincia Auditor. The auditors are to report annually in a manner similar to that required b the Financial Administration Act in respect of Crown corporations.

A summary of the Corporation's operating results for the year together with cumula tive totals to December 31, 1967 follows:

	1967	Cumulative to December 31, 1967
Expenditure—		
Operating costs and site services:		
Building and ground maintenance	$ 27,829,000	$ 30,105,000
Performing arts program	18,231,000	18,407,000
Security, protection and transport	15,819,000	17,868,000
Administration	12,271,000	12,591,000
La Ronde	6,427,000	7,057,000
Utility operation and maintenance	5,532,000	5,638,000
Information services	4,945,000	5,435,000
Operating services	4,159,000	4,454,000
Other	8,152,000	8,208,000
	103,365,000	*109,763,000*

	1967	Cumulative to December 31, 1967
General administration	$ 13,429,000	$ 40,448,000
Interest on loans	9,963,000	13,709,000
Advertising and publicity	9,806,000	20,929,000
Commission on sale of admission passports and bonus books	8,004,000	12,797,000
Depreciation and amortization	1,717,000	2,569,000
Demolition costs	496,000	496,000
	146,780,000	200,711,000
Income—		
Operations:		
Admissions	74,193,000	74,193,000
Concessionnaires	17,540,000	17,607,000
Rides and amusements operated by the Corporation	12,179,000	12,179,000
Performing arts program	8,008,000	8,050,000
Parking lots	6,591,000	6,591,000
Charges and rentals to participants and exhibitors	6,036,000	6,042,000
Building rentals	1,434,000	1,434,000
Licences	1,083,000	1,136,000
Other	1,582,000	1,779,000
	128,646,000	*129,011,000*
Sponsorship	11,973,000	11,973,000
	140,619,000	140,984,000
Net loss from operations	$ 6,161,000	$ 59,727,000

In our 1965 and subsequent Reports (paragraph 226 in 1967) we drew to the ıttention of the House certain expenditures and practices of the Corporation which, in ur opinion, were inconsistent with those usually followed by Crown corporations and gencies. We mentioned that these matters had been drawn to the attention of the 'orporation's management and Board of Directors who advised the joint auditors that ıe expenditures in question were necessary to the Corporation. The practices were ɔntinued in 1967. A number of other matters arising from the 1967 examination have een dealt with in the joint auditors' detailed report to the President and Members of ıe Board of Directors, and three of these are referred to in the following paragraphs of ıis Report:

67. Salaries and termination payments

69. Loss on operation of rented apartment building

71. Cost of repairs to sanitary sewer system

Certain revenues of the Corporation aggregating $101,438,000 of the total of 140,984,000 could not be effectively checked by the joint auditors and their report as qualified accordingly. This matter is dealt with in paragraph 65 of this Report.

The following is a summary of the Corporation's capital expenditure during th year together with cumulative totals to December 31, 1967:

	1967	Cumulative to December 31, 1967
Buildings and special structures	$ 20,321,000	$ 104,314,000
Transit systems	730,000	25,494,000
La Ronde	5,634,000	24,493,000
Roads and bridges	643,000	23,836,000
Landscape development	2,671,000	11,311,000
Utilities	1,801,000	11,016,000
Parking lots	890,000	4,452,000
Furniture, equipment and leasehold improvements, less depreciation	—	815,000
Site preparation	203,000	2,877,000
Special engineering studies	265,000	2,285,000
Capital improvements	1,676,000	1,685,000
Temporary construction facilities	501,000	1,379,000
Reversal of accrual with respect to unbilled construction costs in progress as at December 31, 1966	(4,544,000)	—
	$ 30,791,000	$ 213,957,000

Following the close of the Exhibition all of the capital assets, with the exception (minor items which were demolished or sold and the mass transit system which has sin(been sold to the City of Montreal for $1,880,000, were transferred to the ownership (Canada, Quebec and Montreal, whichever owned the land on which they were situate(Details are given in paragraph 66 of this Report.

In paragraph 226 of our 1967 Report we pointed out that a number of procedur(followed in connection with capital construction projects had the effect of materiall weakening financial control. These included amending contracts subsequent to the wor having been completed in whole or in part without prior ascertainment of the addition: costs involved, making a substantial number of progress payments to contractors withou complete verification, and renegotiating bid prices with the lowest tenderer for modifie programs without the benefit of competitive bidding. These procedures were continue throughout 1967.

The following capital expenditure items are commented on in separate paragrapl of this Report:

68. Cost of Habitat '67 and Theme buildings

70. Cost of sewage-disposal units

72. Gas distribution system

73. Cost of telephone service

The net cost of the Exhibition at December 31, 1967, less grants received, amount(to $233,589,000 and was distributed among the participating governments in accordan(with the agreement of January 18, 1963, namely Canada 50%, Quebec $37\frac{1}{2}$% and Mon

real 12½%. Details of the net cost and the amounts due from the participating governments are as follows:

Net loss from operations		$ 59,727,000
Amounts written off on transfer of capital assets to participating governments—		
Canada	$ 59,876,000	
Quebec	4,754,000	
Montreal	135,095,000	
		199,725,000
Write-down of cost of mass transit system to nominal value of $1		13,419,000
Loss on disposal of other capital assets		718,000
Deficit (Net cost of the Exhibition)		273,589,000
Less: Grants from participating governments—		
Canada	20,000,000	
Quebec	15,000,000	
Montreal	5,000,000	
		40,000,000
		$ 233,589,000
Amounts due from participating governments—		
Canada	$ 116,794,000	
Quebec	87,596,000	
Montreal	29,199,000	
		$ 233,589,000

A request by the joint auditors for confirmation of the correctness of the amounts due by Canada, Quebec and Montreal as their share of the cost of the Exhibition was not replied to by the City of Montreal (see paragraph 66 of this Report).

The sixth revised overall plan dated June 30, 1967 involving expenditures not exceeding $431,905,000 was approved by the Governor in Council while the approval of the Lieutenant-Governor in Council restricted the deficit to $210,665,000. The expenditures amounted to $414,668,000 and the actual deficit as at December 31, 1967 was $273,589,000. It is anticipated that additional costs of $14,063,000 will be incurred by the Corporation to March 31, 1969. The major factor in the net cost exceeding by $62,924,000 the estimate included in the sixth revised plan was the decision of the participating governments to take over capital assets, except the mass transit system, for the sum of $1. An amount of $74,106,000 had been included in the plan as the anticipated proceeds from the disposal of salvage and capital assets.

At December 31, 1967 the net cost of the Exhibition less the grants from the participating governments had been financed to the extent of $216,750,000 by loans from Canada, $205,000,000, and from five chartered banks, $11,750,000. The balance of 16,839,000 was represented by the excess of current liabilities, $22,970,000, over current assets, $6,131,000, excluding the amounts due from the participating governments. Subsequent to the year-end the Corporation borrowed an additional $23,250,000 from the five chartered banks.

The loans from Canada, $205,000,000, and from the chartered banks, $35,000,000, were covered by notes of the Corporation jointly guaranteed by Canada and Quebec. As pointed out in paragraph 239 of this Report, the Corporation was unable to meet

the principal amounts of the notes which came due for payment on June 30, 1968 (which were called in advance of their due date and Canada and Quebec were calle upon to make good their guarantees.

In previous Reports (paragraph 67 in 1967) we pointed out that, since the maj portion of the cost of the Exhibition was being financed by loans from Canada ar because of the existing limitation on grants, changes in legislation would be require before the additional substantial grants could be made to provide the Corporation wit the necessary resources to repay its indebtedness. The Public Accounts Committe discussed this matter with officers of the Department of Finance on June 16, 1966 ar in its Seventh Report 1966-67 expressed its concurrence with our view and recommende that amendments to the existing legislation be placed before Parliament and the Legisl: ture of Quebec so that additional grants could be made by the parties concerned, name Canada, Quebec and Montreal (see Appendix 1, item 36).

271. *Canadian Dairy Commission.* This Commission, established by the Canadia Dairy Commission Act, *1966-67, c.34,* consists of a chairman and two members appointe by the Governor in Council. The objects of the Commission are to provide efficie producers of milk and cream with the opportunity of obtaining a fair return for the labour and investment and to provide consumers of dairy products with a continuo and adequate supply of dairy products of high quality.

All the financial transactions of the Commission are recorded in the Canadia Dairy Commission Account which was established in the Consolidated Revenue Fun as required by section 15 of the Act. The purchase of dairy products under market pric support programs was financed by means of loans from the Minister of Finance. Subsi payments to dairy producers, trading losses and expenses, including interest on loan were recovered from the Agricultural Stabilization Board (see paragraph 296 of th Report). Administration expenses of the Commission were met from Agriculture Vote 6

On establishment of the Commission, the Governor in Council, under section of the Financial Administration Act, added the Canadian Dairy Commission to Schedu C of the Act and under section 77 designated a firm of chartered accountants as audito of the Commission. On October 29, 1968 the Governor in Council designated the Audit General of Canada as auditor of the Commission with effect from April 1, 1968.

The following is a summary of the operations of the Commission for the ye ended March 31, 1968:

Trading operations—	
Sales	$ 48,571,000
Cost of sales	48,154,000
Gross profit	417,000

— by commodities —

	Sales	Cost of sales	Gross profit
Butter	$ 47,373,000	$ 46,970,000	$ 403,000
Dry skim milk	1,198,000	1,184,000	14,000
	$ 48,571,000	$ 48,154,000	$ 417,000

Expense:	
Storage	$ 1,594,000
Freight and cartage	955,000
Interest on loans	913,000
Handling	179,000
Miscellaneous	73,000
	3,714,000
Loss on trading operations	3,297,000
Subsidy operations—	
Payments to producers of manufacturing milk and cream	89,028,000
Export equalization payments	6,424,000
	95,452,000
Administration—	
Salaries and employee benefits	166,000
Audit fee	32,000
Office supplies, equipment and furnishings	19,000
Rent	17,000
Consulting Committee expenses	11,000
Travel	8,000
Communications and transportation	7,000
	260,000
Net expenditure	$ 99,009,000
Net expenditure provided for by—	
Department of Agriculture Vote 17	$ 124,114,000
Department of Agriculture Vote 65	260,000
	124,374,000
Less: Advances from Department of Agriculture Vote 17 through the Agricultural Stabilization Board carried forward to 1968-69	24,948,000
Gross profit on trading operations transferred to equity account	417,000
	25,365,000
	$ 99,009,000

Net expenditure of $99,009,000 does not include costs incurred by the Department of Agriculture, the Agricultural Stabilization Board and the Comptroller of the Treasury who assist the Commission in the detailed operations of its dairy programs, including maintaining records of producer and processor registrations, producer quotas and marketings, preparation of payment documentation and cheques, audit of processors' records and franked mail facilities. Provision should be made for the cost of these services in the Canadian Dairy Commission vote for Administration, Operation and Maintenance so that the total cost of administering the dairy price-support programs will be assembled in one vote.

272. *Canadian Film Development Corporation.* This Corporation was established in March 1967 by the Canadian Film Development Corporation Act, *1966-67, c.78*, and consists of six members appointed by the Governor in Council and the person holding the office of Government Film Commissioner. Its objects are to foster and promote the development of a feature film industry in Canada.

At March 31, 1968 only four members had been appointed and the Corporation had not entered into any financial transactions.

273. *Canadian Livestock Feed Board.* This Board was established in November 196(by the Livestock Feed Assistance Act, *1966-67, c.52,* and consists of from three to fiv members appointed by the Governor in Council. The objects of the Board are to ensur the availability of feed grain to meet the needs of livestock feeders; the availability o adequate storage space in Eastern Canada for feed grain; and the maintenance o reasonable stability in, and fair equalization of, feed grain prices in Eastern Canad and in British Columbia.

The following summary shows the expense of the Board for the year ended Marc 31, 1968:

Assistance on feed grains—		
Freight	$ 21,339,000	
Storage	89,000	
		$ 21,428,000
Administration—		
Salaries and employee benefits	95,000	
Accounting and cheque issue services	50,000	
Accommodation	20,000	
Travel and removal	17,000	
Office equipment and furnishings	14,000	
Advertising and publicity	10,000	
Stationery and office supplies	8,000	
Other	14,000	
		228,000
Total expense		$ 21,656,000
Total expense provided for by—		
Department of Forestry and Rural Development, Votes 40 and 45		$ 21,582,000
Government departments which provided certain major services without charge		74,000
		$ 21,656,000

The major services provided without charge were employee benefits by the Treasur Board, accounting and cheque issue services by the Department of Finance, and accom modation by the Department of Public Works. It is the general policy that Crow corporations pay for these services and provision should be made for these costs in th appropriation for the administration and operation expenses of the Board.

At March 31, 1968 action was being taken to recover an overpayment of $21,00 in respect of an assistance claim, and the Board had a contingent liability in respec of a claim for freight assistance in the amount of $61,000 that was the subject o litigation.

274. *Canadian National (West Indies) Steamships, Limited.* The operations of thi Company ceased in 1958 on the sale of its fleet of eight vessels to Cuban interests.

The Crown's equity in the Company at December 31, 1967 was $556,000 represente by cash, $100,000, and a final instalment of $470,000 receivable under an agreement o sale, less a liability of $14,000 in respect of unclaimed matured bonds. During the year th Company earned bank interest of $3,200 and made disbursements of $200.

On February 29, 1968, $95,000 was transferred from the Company's bank account to a special account in the name of the Company in the Consolidated Revenue Fund.

The balance receivable under the agreement of sale represents the final instalment due August 19, 1963 under terms of a letter of credit confirmed by the Bank of America. Payment continues to be prohibited by the Cuban Assets Control Regulations of the United States of America dated July 8, 1963, despite efforts of management to obtain release of the funds.

As the only remaining function of the Company is the collection of this final instalment under the agreement of sale, consideration should be given to the transfer of this account to the Crown and the surrender of the Company's charter.

275. *Canadian Overseas Telecommunication Corporation.* This Corporation was constituted in 1949 by the Canadian Overseas Telecommunication Corporation Act, *R.S., c.42,* to establish, maintain and operate external telecommunication services generally and to co-ordinate Canada's external telecommunication services with those of other nations.

The Crown's equity in the Corporation was $75,647,000 at March 31, 1968 comprising advances of $52,383,000 and a surplus of $23,264,000.

The Corporation received advances of $5,500,000 during the year to finance in part the acquisition of capital assets and repaid $2,891,000 on advances received in prior years. Additions to capital assets amounted to $7,173,000 and at March 31, 1968 the estimated cost of completing approved capital projects was $26,570,000 of which $19,087,000 relates to the year ending March 31, 1969.

The following is a summary of income and expense of the Corporation for the past two years:

	Year ended March 31	
	1968	1967
Income—		
Telegraph, telephone, telex, circuit rentals, satellite, etc.	$ 24,502,000	$ 21,213,000
Expense—		
Salaries, wages and employee benefits	6,008,000	5,070,000
Depreciation	5,892,000	5,283,000
Rental of circuits	2,621,000	2,279,000
Interest	2,433,000	2,357,000
Maintenance and repairs—plant and equipment	1,073,000	1,142,000
Other	730,000	699,000
	18,757,000	16,830,000
Estimated amount recoverable from Commonwealth Network	2,216,000	2,697,000
	16,541,000	14,133,000
Profit before income tax	7,961,000	7,080,000
Provision for income tax	3,970,000	3,530,000
Net profit	$ 3,991,000	$ 3,550,000

Income for the year increased by $3,289,000 of which $1,714,000 related to a globa commercial communications satellite system in which the Corporation is participatin and which went into operation for the first time in April 1967. Facilities of the Depart ment of Transport were again used during the year in connection with this operatio pending the construction of the Corporation's own ground station, scheduled for com pletion early in 1969. The balance of the increase was attributed to a greater volume o telephone, telegraph and telex traffic.

Expense increased by $1,927,000 while the estimated portion recoverable from th Commonwealth network decreased by $481,000, resulting in an increase of $2,408,00 in the expense charged to operations. Of this increase, $938,000 related to salaries, wage and employee benefits, largely the result of increased salary scales and wage rates, an $609,000 to depreciation, due to the increased investment in capital assets.

276. *Canadian Patents and Development Limited.* Section 17 of the Nationa Research Council Act, *R.S., c. 239,* provides for the incorporation of one or more com panies by the National Research Council of Canada for the purpose of exercising certai of the powers conferred upon the Council. Under this authority Canadian Patents an Development Limited was incorporated in 1947 under the Canada Corporations Act *R.S., c. 53,* for the purpose of making available to industry, through licensing arrange ments, the inventions and new processes developed by the Council. The services of th Company, which is located in Ottawa, are also available to government department publicly supported institutions and universities.

At March 31, 1968 the Crown's equity in the Company was $1,219,000, comprisin capital stock of $296,000 and surplus of $923,000.

The following is a summary of the results of the Company's operations for the pas two years:

	Year ended March 31	
	1968	1967
Income—		
Royalties, licensing fees, etc.	$ 368,000	$ 393,000
Less: Costs of licensing rights and related technical assistance, etc.	57,000	44,000
	311,000	349,000
Other	75,000	72,000
	386,000	421,000
Expense—		
Salaries	188,000	140,000
Promotion and development, including $10,000 ($70,000 in 1966–67) prepaid promotion and development expense written off	124,000	143,000
Patent attorneys' fees and other patenting costs	84,000	78,000
Services provided by National Research Council of Canada	20,000	20,000
Awards to inventors	16,000	20,000
Other	13,000	16,000
	445,000	417,000
Net loss (profit)	$ 59,000	$ (4,000)

The decreased income from royalties, licensing fees, etc., is largely attributable to a very substantial reduction in royalties received on one invention. The increase in the cost of licensing rights and related technical assistance was due to increases in royalties payable under agreements with universities and other agencies and in royalty proceeds required to be paid to a British Crown corporation.

The increase in salaries resulted from an increase in staff in the latter part of the preceding fiscal year and a general salary revision.

The decrease in promotion and development expense resulted from the substantial decrease in the write-off of prepaid promotion and development expense offset by an increase in other costs in this category. This increase is attributable to greater emphasis being placed by the Company on assistance to licensees in the development, and in some cases pre-production, of inventions.

The increase in the cost of patent attorneys' fees and other patenting costs resulted from the filing of a larger number of patent applications with consequent increases in fees paid to patent attorneys and various governments.

The decrease in the awards to inventors resulted from the lower income from royalties and from a decrease in the proportion of royalties which were subject to the higher rates at which awards may be computed. The decrease in other expense is accounted for by decreases in office stationery, supplies, equipment and furnishings and legal fees, offset by increases in miscellaneous expense and travel.

277. *Centennial Commission.* The Centennial Commission was established by the Centennial of Canadian Confederation Act, *1960-61, c. 60,* to promote interest in, and to plan and implement programs and projects relating to the Centennial of Confederation in Canada. The Commission consisted of a commissioner, an associate commissioner and twelve directors, all appointed by the Governor in Council. Pursuant to Secretary of State Vote 1c, Appropriation Act No. 1, 1968, *1967-68, c. 34,* the Commission ceased to exist on April 1, 1968; all rights and property, and all obligations and liabilities of the Commission, existing before that day, were directed to continue as the rights, property, obligations and liabilities of the Crown; and the Secretary of State was authorized to close out the affairs of the Commission.

The Centennial of Confederation Fund established under section 10 of the Act in the Consolidated Revenue Fund had a balance of $4,715,000 at April 1, 1967. During the year $13,235,000 appropriated by Parliament was credited to the Fund and $10,697,000 granted to provinces for approved projects was charged thereto, leaving $7,253,000 in the Fund at March 31, 1968.

At March 31, 1968 the Commission had commitments outstanding amounting to $2,392,000 under the Confederation Memorial Program, in respect of uncompleted memorial projects in four provinces and the Northwest Territories, and to $4,361,000 under the Centennial Projects Program in respect of projects of a lasting nature initiated by municipalities or local agencies and approved by provincial authorities. The balance of $7,253,000 in the Centennial of Confederation Fund was available to the Secretary of State to meet these commitments. In addition, liabilities amounting to an estimated

$185,000 were outstanding at March 31, 1968 in respect of administration ($30,000) and programs and projects of national significance ($155,000), for which funds have been provided from Treasury Board Vote 5, Contingencies, subject to the submission of an item for consideration with Supplementary Estimates, 1968-69.

The following is a summary of expenditure for the past two years and the cumulative figures since the establishment of the Commission:

	Year ended March 31		Cumulative to March 31,
	1968	1967	1968
Programs and projects of national significance	$ 13,370,000	$ 12,519,000	$ 37,689,000
Grants to provinces for approved projects of a lasting nature	10,697,000	18,840,000	34,982,000
Administration expense—			
Salaries and employee benefits	1,733,000	1,522,000	4,838,000
Exhibits, displays and films	1,221,000	1,484,000	3,004,000
Professional and special services	930,000	864,000	2,246,000
Travel	181,000	212,000	634,000
Telephone and telegraph	151,000	105,000	321,000
Accommodation	107,000	95,000	342,000
Informational programs and publications	101,000	187,000	400,000
Stationery, supplies and office equipment	99,000	149,000	378,000
Other	273,000	265,000	751,000
	4,796,000	*4,883,000*	*12,914,000*
Total expenditure	$ 28,863,000	$ 36,242,000	$ 85,585,000
Total expenditure provided for by—			
Parliamentary appropriations	$ 28,678,000	$ 36,076,000	$ 85,069,000
Government departments which provided major services without charge	185,000	166,000	516,000
	$ 28,863,000	$ 36,242,000	$ 85,585,000

The main expenditures on "Programs and projects of national significance" in 1967-68 were incurred in respect of: Confederation Train and Caravans, $5,004,000 (including $447,000 for promotion); Performing Arts, $2,222,000 (including $376,000 for promotion); Youth Travel, $1,345,000 (including $43,000 for promotion); Promotion of Centennial Abroad, $880,000; National Capital, $489,000; Centennial Medals and Medallions, $332,000; and Publications Assistance, $322,000.

The Commission reached its peak level of activity midway through the Centennial Year. With the conclusion of some activities earlier than others and the general reduction in all activities after the Centennial Year, administration expense decreased by $87,000 to $4,796,000 for the year ended March 31, 1968.

An expenditure of $65,000 was incurred in connection with a proposed spectacular on Parliament Hill which was subsequently cancelled (see paragraph 74 of this Report).

278. *Cornwall International Bridge Company Limited.* This Company, owned equally by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation, a United States Government corporation, has been in process of

winding up since July 3, 1962. At that time the Company ceased to operate the toll bridge system across the St. Lawrence River between Cornwall, Ont., and Rooseveltown, N.Y. The toll bridge system is now operated by The Seaway International Bridge Corporation, Ltd., a subsidiary of The St. Lawrence Seaway Authority.

As of September 29, 1967 the remaining assets of the Company were equally distributed to the Seaway entities. The application for surrender of its charter was accepted by the Registrar General who fixed May 27, 1968 as the date upon which the Company was dissolved.

279. *Crown Assets Disposal Corporation.* This Corporation was established in 1944 by the Surplus Crown Assets Act, *R.S., c.260.* With certain specified exceptions, the Corporation is responsible for the disposal of the surplus assets of all government departments and most of the Crown corporations and agencies. The Corporation has entered into agreements with Britain and the United States whereby it also disposes of surplus property held by them in Canada. The Corporation has its head office in Ottawa and sales offices in a number of cities across Canada.

As has been the case for a number of years, the Corporation was authorized for the 1967-68 year to retain 4% of the net proceeds of sales of lands and buildings and 10% of the net proceeds of all other sales to meet its administrative and other expenses. A summary of the Corporation's income and expense for the year together with comparable figures for the preceding year follows:

	Year ended March 31	
	1968	1967
Income—		
Portion retainable by the Corporation from net sales and other income earned	$ 1,181,000	$ 1,918,000
Expense—		
Salaries	719,000	659,000
Employee benefits	61,000	57,000
Rent	59,000	57,000
Printing, stationery and office supplies	41,000	37,000
Telephone, telegrams and postage	40,000	34,000
Travel	27,000	21,000
Data processing	15,000	15,000
Office furniture and equipment	14,000	14,000
Other	13,000	6,000
	989,000	900,000
Excess of income over expense	$ 192,000	$ 1,018,000

The $737,000 decrease in income was due to a decrease of $11 million in sales. The 89,000 increase in expense was largely accounted for by an increase of $60,000 in alary costs resulting primarily from a general increase in rates and an increase from 13 to 119 in staff.

Pursuant to section 81 of the Financial Administration Act, the Corporation was directed to pay to the Receiver General, as of March 31, 1959 and from time to time thereafter, but at intervals of not longer than six months, all of its surplus in excess of $100,000. Consequently, the $192,000 excess of income over expense for the year was paid to the Receiver General, leaving the surplus unchanged at $100,000.

The equity of the Crown in the Corporation's Agency Account at March 31, 1968 was $7,257,000 compared with $7,298,000 at the end of the preceding year, largely represented by amounts totalling $6,351,000 receivable under long-term interest-bearing sales agreements.

The transactions in the Agency Account during the year, compared with the preceding year, are summarized as follows:

	Year ended March 31	
	1968	1967
Sales made on behalf of—		
Canada	$ 14,114,000	$ 24,952,000
Others	301,000	706,000
Interest	375,000	204,000
	14,790,000	25,862,000
Less: Direct costs relating to sales	20,000	36,000
	14,770,000	25,826,000
Add: Reduction of prior years' provision for doubtful account	3,000	—
	14,773,000	25,826,000
Deduct:		
Portion retainable by the Corporation from net sales and other income earned	1,181,000	1,918,000
Remittances to the Receiver General	13,362,000	20,990,000
Other remittances	275,000	617,000
	14,818,000	23,525,000
Decrease (increase) in equity—		
Canada	41,000	(2,284,000)
Others	4,000	(17,000)
	$ 45,000	$ (2,301,000)

The decrease of $11,243,000 in sales comprises decreases of $6,321,000 in sales o lands and buildings and $4,922,000 in other sales. There were no exceptionally larg sales during the year comparable to those of the preceding year.

In its Seventh Report 1964-65 the Public Accounts Committee recommended tha the sales and inspection procedures of the Corporation be revised with a view to improv- ing sales techniques. Following the merging of the Supply Division into the Commodit Sales Division in 1966, the Corporation created a management planning unit in Decem- ber 1967 to undertake market research, analyses of sales procedures and performance and the forecasting and development of new business.

280. *Defence Construction (1951) Limited.* This Company was incorporated i 1951 under the Canada Corporations Act, *R.S., c.53,* pursuant to the authority in section of the Defence Production Act, *R.S., c.62.*

The Company is responsible for awarding and supervising contracts for defence construction projects and it may also assist civilian agencies of the Government. Funds to finance projects are provided by the departments concerned, or by the United States Government for defence projects in Canada undertaken on its behalf. Expenditures on defence construction projects approved by the Company for payment by the Department of National Defence and by the United States Government decreased by $7 million from $30 million in 1966-67 to $23 million in 1967-68.

The following is a summary of expense and income for the past two years:

	Year ended March 31	
	1968	1967
Expense—		
Salaries and living allowances	$ 3,310,000	$ 3,265,000
Employee benefits	245,000	240,000
Travel and removal	185,000	186,000
Other	308,000	358,000
	4,048,000	4,049,000
Income—		
Reimbursement for engineering and administrative services	1,769,000	1,776,000
Other	1,000	1,000
	1,770,000	1,777,000
Net expense	$ 2,278,000	$ 2,272,000
Net expense provided for by—		
Department of National Defence Vote 55	$ 2,230,000	$ 2,192,000
Government departments which provided major services without charge	48,000	80,000
	$ 2,278,000	$ 2,272,000

Higher salary rates more than offset the savings resulting from a staff decrease of 15 employees.

As noted in our 1967 Report (paragraph 237), the Royal Commission on Government Organization, reporting on its study of real property, recommended that the Company be transferred to a real property organization or bureau to be established under the supervision of the Deputy Minister of National Defence. As a first step, control of the Company was transferred in 1965 from the Minister of Industry to the Minister of National Defence. A review was then undertaken by the Bureau of Management Consulting Services of the Public Service Commission to determine the desirability of retaining the present corporate structure. The Bureau's report issued in January 1968 recommended that the Company retain its present status as a Crown corporation reporting to the Minister of National Defence.

281. *Eldorado Aviation Limited.* This Company was incorporated in 1953 under the Canada Corporations Act, *R.S., c.53,* and is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Operating from headquarters in Edmonton, it provides air transportation services mainly for its parent company and Northern Transportation Company Limited, another wholly-owned subsidiary of Eldorado Mining and Refining

Limited. These two companies share the cost of operations of Eldorado Aviation Limited on a "cost per ton-mile" basis.

The equity of Eldorado Mining and Refining Limited in the Company at December 31, 1967 comprised capital stock of $28,000 and surplus of $254,000.

The following is a comparative summary of the net expense of the Company for the past two years:

	Year ended December 31	
	1967	1966
Salaries, wages and employee benefits	$ 266,000	$ 250,000
Supplies	181,000	164,000
Repairs	124,000	130,000
Hangar expense	55,000	49,000
Depreciation	30,000	29,000
Insurance	26,000	19,000
Other	23,000	29,000
	705,000	670,000
Miscellaneous income	37,000	73,000
Net expense	$ 668,000	$ 597,000

The increase of $16,000 in salaries, wages and employee benefits was due mainly to an increase in the number of employees from 30 to 32 together with an increase in salary rates effective May 1, 1967. The increase of $17,000 in supplies was due to increased consumption of gasoline and oil resulting from increased ton-miles flown on regular freight and passenger flights. Insurance increased by $7,000 as a result of a general increase in rates and the withdrawal of the no-claim bonus following the crash and total loss of a Sikorsky helicopter. The proceeds of insurance amounting to $47,500 exceeded the net book value of the helicopter by $26,700 and this sum was credited to surplus. Miscellaneous income decreased by $36,000 due to a reduction in the time that Company aircraft were rented to private operators.

The net expense for the year was recovered by the Company from Eldorado Mining and Refining Limited and from Northern Transportation Company Limited in the amounts of $544,000 and $124,000 respectively.

282. *Eldorado Mining and Refining Limited.* This Company was incorporated in 1945 under the Canada Corporations Act, *R.S., c.53,* following expropriation in 1944 of the shares of a privately-owned company. The principal functions of the Company are to produce, refine, procure and sell uranium and allied products. The head office of the Company and the Research and Development Division are in Ottawa, the Beaverlodge mine is near Uranium City, Sask., and the refinery and administrative offices are in Port Hope, Ont.

The equity of the Crown in the Company at December 31, 1967 amounted to $52,032,000 comprising capital stock of $6,586,000 and surplus of $45,446,000.

In 1962 the Company contracted to sell to the United Kingdom Atomic Energy Authority 24,000,000 pounds of uranium concentrates between the years 1962 and

1971. At the same time, the Company contracted to purchase 20,917,000 pounds of uranium concentrates from six producers, leaving a balance of 3,083,000 pounds to be supplied from the Company's own mine. The sales contract provided for the deferment of payment on 4,800,000 pounds delivered in 1962 to 1966 until the later years of the contract period. The amount of $25,719,000 thus deferred was initially to be recovered in equal annual instalments during the years 1971-73. On March 11, 1968, by a supplemental agreement, the Authority agreed to pay $18,000,000 on April 4, 1968 and $4,896,000 on or before April 4, 1969 in full and final settlement of the account. On March 20, 1968, by a second supplemental agreement, the Authority agreed to various increases in the unit price for 4,915,693 pounds to be delivered in the period from September 1968 to October 1971. Sales contracts with two other parties were completed during the year which provide for payment to be made following shipment as required from time to time before December 31, 1975. A balance of $7,979,000 is receivable under these contracts.

All costs in connection with the procurement of concentrates from other producers are recovered. Up to the end of the previous year, sales of concentrates procured from other producers exceeded costs and expenses by $1,131,000. During the year the excess of costs and expenses over sales amounted to $12,000, leaving a balance of $1,119,000 to be offset against deliveries in future years when costs of procurement will exceed the amount of the sales.

The Governor in Council granted authority in 1963 and 1965 for the entry into contracts between Her Majesty the Queen in right of Canada, represented by Eldorado Mining and Refining Limited, and certain other uranium producers for the purchase of uranium concentrates for stockpiling by Canada. At December 31, 1967 the Company was the custodian of uranium concentrates thus acquired at a total cost of $69,810,000. Funds for the acquisition of these concentrates were provided by parliamentary appropriations and accordingly their cost was not included in the accounts of the Company.

The following is a summary of income and expense for the past two years:

	Year ended December 31	
	1967	1966
Income—		
Sales of uranium concentrates, uranium metal and related products, and revenue from refining services	$ 14,524,000	$ 14,297,000
Expense—		
Cost of products and services sold	12,293,000	12,505,000
Depreciation	630,000	670,000
Scientific research	629,000	692,000
Exploration	223,000	406,000
Administration, selling, municipal taxes, etc.	1,181,000	922,000
	14,956,000	15,195,000
Net loss from operations	432,000	898,000
Interest and other non-operating income (net)	702,000	1,074,000
Net income	$ 270,000	$ 176,000

Sales of uranium concentrates totalled 2,201,000 pounds in 1967 compared with 1,988,000 pounds in 1966, an increase of 213,000 pounds. Revenue from sales increased by $1,172,000 as a net result of sales of $6,414,000 to a company in Japan, $3,303,000 to the Hydro-Electric Power Commission of Ontario and $2,849,000 to Canada's stockpile, offset by decreases of $9,440,000 in sales to the United Kingdom Atomic Energy Authority and $1,954,000 in sales to the United States Atomic Energy Commission. This increase in revenue was in part offset by a decrease of $945,000 in income from refining services and sales of special products. The most significant items were decreases in the refining contracts for the United States Atomic Energy Commission, $496,000, and the Canada stockpile, $226,000, together with a decrease in the sale of depleted uranium, $277,000.

The decrease of $183,000 in exploration costs relates chiefly to a group of claims near Beaverlodge, Sask., where exploration work has ceased. The claims are now being developed in preparation for mining operations.

Selling expense, which increased by $102,000 over the previous year, includes commission of $199,000 paid on the sale of 1,000,000 pounds of uranium concentrates to the Japanese company. This had no counterpart in 1966.

There was an increase of $71,000 in the grant in lieu of municipal taxes paid to the Municipal Corporation of Uranium City due to an increase in the mill rate. Small increases in grants were also paid to the City of Ottawa and the Town of Port Hope.

The decrease of $372,000 in interest and other non-operating income was due mainly to a reduction in profits on disposal of capital assets, $146,000, and to smaller sums being on deposit with the Receiver General and the Company's bankers throughout the year resulting in a diminution of interest, $124,000. In 1967 the Company did not finance the Canada stockpile and as a consequence no interest was earned; $45,000 was earned in 1966.

No provision for income tax has been required for the past two years, the Company having no taxable income because of amounts claimed as allowances for scientific research, capital cost and depletion.

283. *Export Credits Insurance Corporation.* This Corporation was established in 1944 by the Export Credits Insurance Act, *R.S., c.105,* to provide insurance to Canadian exporters against the risk of non-payment by foreign buyers. The Corporation, which has its head office in Ottawa and branches in Montreal, Toronto, and Vancouver, is intended to operate on a self-sustaining basis from premiums charged on contracts of insurance. However, section 21 of the Act provides that, where the Corporation is of the opinion that a proposed contract of insurance will impose upon it a liability for a term or in an amount in excess of that which the Corporation would normally undertake, the Governor in Council may authorize the Corporation to enter into the proposed contract.

In the event of a loss under section 21 (there has been none) the moneys required to discharge the liability would be paid from the Consolidated Revenue Fund up to a limit of $600 million.

In order to further promote Canadian exports, an amendment to the Act in 1959 introduced section 21A which permits the Corporation, with the authority of the Governor in Council, to provide long-term financing for export sales of capital goods and services. Funds for this purpose are provided out of the Consolidated Revenue Fund up to a limit of $500 million.

The Crown's equity in the Corporation at December 31, 1967 was $199,420,000 consisting of share capital of $5,000,000, capital surplus of $5,000,000, an underwriting reserve of $6,000,000 and earned surplus of $3,844,000, together with advances and accrued interest totalling $179,576,000 in respect of long-term financing of sales agreements under section 21A of the Act.

The underwriting reserve, established to provide for losses on contracts of insurance entered into on the Corporation's own account, remained unchanged at $6 million. At December 31, 1967 the reserve amounted to 3.6% of the Corporation's liabilities under these contracts of insurance compared with 4.3% of the corresponding liabilities at the end of the preceding year and 3.8% at the end of 1965.

Export sales insured by the Corporation on its own account during 1967 totalled $214 million compared with $155 million in 1966. Export sales insured under section 21 of the Act totalled $24 million compared with $52 million in 1966. At December 31, 1967 the liability of the Corporation for contracts of insurance totalled $369 million of which $167 million was for contracts entered into on its own account and $202 million was for contracts entered into under section 21 of the Act. Premiums and guarantee fees earned on risks insured on the Corporation's own account amounted to $762,000 compared with $694,000 in 1966. The Corporation's portion of premiums earned in respect of contracts entered into under section 21 of the Act amounted to $138,000 compared with $347,000 in 1966.

At December 31, 1967, after seven years of operation in the field of direct long-term financing of export sales under section 21A of the Act, the Corporation had entered into agreements totalling $387 million. A total of $246 million had been disbursed of which $56 million had been repaid, leaving a balance on loan of $190 million compared with $174 million at December 31, 1966. The Corporation's portion of interest and guarantee fees earned in respect of long-term financing agreements amounted to $325,000 in the year compared with $400,000 in the previous year. Notes for $15 million which mature within two years were held for the account of Export Finance Corporation of Canada, Ltd., a subsidiary of the Canadian chartered banks, to whom they had been sold. However, as the notes are unconditionally guaranteed by the Corporation, it continues to be responsible for the collection of the principal and interest.

The following is a comparative summary of operations for the past two years:

	Year ended December 31	
	1967	1966
Income—		
Premiums, fees and interest earned	$ 1,225,000	$ 1,441,000
Expense—		
Salaries and employee benefits	653,000	594,000
Rents	64,000	54,000
Stationery, printing and office	52,000	37,000
Travel	43,000	39,000
Communications	27,000	23,000
Other	87,000	93,000
	926,000	840,000
Operating income	299,000	601,000
Policyholders' claims—		
Payments	1,708,000	771,000
Recoveries	256,000	161,000
	1,452,000	610,000
Excess of policyholders' claims over operating income	1,153,000	9,000
Interest on investments	286,000	323,000
Excess of expense over income	$ 867,000	$ (314,000)

The increase of $86,000 in expense resulted mainly from an increase of $55,000 in salaries, of which approximately $16,000 was due to staff increases and $39,000 to salary increases.

The following is a summary of transactions in respect of claims paid to policyholders:

Type of claim	Outstanding Jan. 1, 1967	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1967
Insolvency	$ 269,000	$ 56,000	$ 5,000	$ 90,000	$ 230,000
Default	422,000	283,000	64,000	26,000	615,000
Exchange transfer	415,000	1,369,000	187,000	—	1,597,000
Other	12,000	—	—	—	12,000
	$ 1,118,000	$ 1,708,000	$ 256,000	$ 116,000	$ 2,454,000

The large increase during the year in the amount outstanding was due mainly to a payment to an exporter to Egypt because of foreign exchange transfer difficulties in that country. The Corporation anticipates making substantial recoveries from the total outstanding amount of $2,454,000 and the amounts recovered will be recorded as income in the year in which the recoveries are effected.

284. *Farm Credit Corporation.* This Corporation was established in 1959 by the Farm Credit Act, *1959, c.43,* to make, administer and supervise long-term mortgage loans to farmers. The Corporation also administers the Farm Machinery Syndicates Credit Act, *1964-65, c.29,* which authorizes the making of loans to qualified syndicates of three or more farmers for the purchase of farm machinery for their co-operative use. The head office of the Corporation is in Ottawa and there are seven provincial branch and 127 field offices including the offices of 31 district supervisors.

The Crown's equity in the Corporation at March 31, 1968 was $949,451,000 comprising: capital, $35,500,000; loans from Canada, $886,185,000 (of which $2,290,000 was in respect of the Farm Machinery Syndicates Credit Act); accrued interest on loans from Canada, $26,220,000; Reserve for Losses under the Farm Credit Act, $1,529,000; and retained earnings from operations under the Farm Machinery Syndicates Credit Act, $17,000.

During the year, 11,559 loans amounting to $251,228,000 were made under the Farm Credit Act compared with 11,632 loans totalling $234,447,000 in the previous year. Repayments of principal amounted to $83,924,000. Loans outstanding at March 31, 1968, with accrued interest, amounted to $944,418,000 compared with $770,554,000 at March 31, 1967.

The following is a summary of the income and expense of the Corporation under the Farm Credit Act for the past two years:

	Year ended March 31	
	1968	1967
Income—		
Interest earnings	$ 43,202,000	$ 34,152,000
Deduct: Interest on loans from Canada	41,990,000	32,194,000
	1,212,000	1,958,000
Appraisal, supervision and legal fees, etc.	1,269,000	1,152,000
	2,481,000	3,110,000
Expense—		
Salaries and employee benefits	4,822,000	4,453,000
Travel	594,000	532,000
Office accommodation	396,000	305,000
Postage, express, telephone and telegraph	138,000	118,000
Printing, stationery and office supplies	121,000	112,000
Rental and maintenance of office equipment	91,000	73,000
Depreciation	59,000	46,000
Appeal Boards—fees and expenses	16,000	12,000
Professional services	11,000	16,000
Other	68,000	48,000
	6,316,000	5,715,000
Less: Portion allocated to operations under the Farm Machinery Syndicates Credit Act	26,000	26,000
	6,290,000	5,689,000
Net operating loss, provided for by parliamentary appropriation	$ 3,809,000	$ 2,579,000

With respect to operations under the Farm Machinery Syndicates Credit Act, the Corporation had income of $24,000 from earned interest (net) and service charges, and allocated expenses of $26,000 to these operations, as shown in the above summary. The net loss of $2,000 was charged to retained earnings which amounted to $17,000 at March 31, 1968. Since the Act came into force on December 11, 1964, the Corporation has made 348 loans totalling $2,616,000 repayable over a term not exceeding seven years. As at March 31, 1968, loans outstanding totalled $2,211,000 including accrued interest. The interest rate of $6\frac{1}{2}\%$ has been increased to $7\frac{1}{2}\%$ on new loans effective November 15, 1968.

Section 15 of the Farm Credit Act requires the Corporation to establish a reserve out of which may be paid "any losses sustained by the Corporation in the conduct of its business". The section further provides that the Corporation shall credit its net earnings each year to this reserve until the amount of the reserve equals the capital of the Corporation. At March 31, 1968 the capital of the Corporation was $35,500,000 whereas the Reserve for Losses was only $1,529,000, having been reduced by $40,000 during the year due to losses on loans written off. In our reports to the Minister of Agriculture under section 87 of the Financial Administration Act on the results of our examinations of the accounts of the Corporation, we have for a number of years referred to the inadequacy of the statutory lending rate of 5% on loans to farmers and the continuing deficiency in the Reserve for Losses.

An amendment to the Act assented to on November 14, 1968 provides that the interest rate on new loans to farmers be fixed by the Governor in Council and, on November 15, 1968, the rate was fixed at $7\frac{3}{4}\%$. However, the new rate is applicable only to new loans and annual losses will continue with respect to loans made at the former statutory rate so that for a considerable time there will be no net earnings to credit to the reserve. Meanwhile continuation of the policy of recovering the annual operating losses of the Corporation from parliamentary appropriations will prevent further depletion of the reserve by such losses.

We have recommended to the Corporation that in view of the magnitude of its operations and the growing volume and value of the loans outstanding, consideration should be given to the appointment of an internal auditor. He should, in our view, report to the Chairman and be given broad terms of reference to include a continuous and independent appraisal of the internal controls and operations of the Corporation.

285. *The National Battlefields Commission.* This Commission was constituted by The National Battlefields at Quebec Act, *1908, c.57,* to acquire and preserve the historic battlefields at Quebec. The Commission consists of nine members, seven of whom are appointed by the Governor in Council and one each by the governments of the provinces of Ontario and Quebec.

At March 31, 1968 the proprietary equity of the Crown in the Commission was $1,627,000 represented by capital assets costing $1,606,000 and working capital of $21,000.

The following is a comparative summary of the expenses of the Commission for the past two years:

	Year ended March 31	
	1968	1967
Salaries, wages and employee benefits	$ 192,000	$ 185,000
Policing services	35,000	27,000
Light, heat, power, gasoline and oil	15,000	13,000
Operating supplies and nursery stock	10,000	13,000
Repairs of roads, driveways, buildings and equipment	10,000	9,000
Other	15,000	22,000
	277,000	269,000
Capital outlays	74,000	23,000
	$ 351,000	$ 292,000

The expenses for the year were met to the extent of $3,000 from miscellaneous income and to the extent of $348,000 from Department of Indian Affairs and Northern Development Vote 35 which authorized payments to the Commission for the purposes of the Act in the amount of $354,000.

Funds contributed by provincial governments and others, which may be used only for the acquisition of land with prior parliamentary approval, amounted, with interest, to $36,000 at March 31, 1968. There have been no transactions since 1938.

286. *National Capital Commission.* This Commission was established by the National Capital Act, *1958, c.37,* to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission, 1899. The objects of the Commission are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance". The Commission consists of 20 members from across Canada appointed by the Governor in Council.

Subject to the control exercised by the Governor in Council, the Commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; undertaking joint projects with municipalities or making grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites.

At March 31, 1968 the Crown's equity in the Commission was $181,247,000 represented by capital assets at cost, $175,165,000, and working capital, $6,082,000. Excluded from these amounts is the value of properties expropriated but for which compensation has not been paid. This was estimated to be $15,630,000 at March 31, 1968, of which $8,130,000 will be reimbursed by the Bank of Canada under an agreement signed in November 1967 relating to the acquisition by the Commission of a block of land adjacent to the Bank's present holdings.

The Commission's activities are financed by annual parliamentary appropriations, to a minor extent by revenues from rentals, etc., and by loans from Canada for the acquisition of property. These sources provided net funds totalling $25,117,000 in 1967-68, as follows:

Parliamentary appropriation to the National Capital Fund	$ 14,650,000	
Less: Used to repay earlier loans from Canada	4,248,000	
		$ 10,402,000
Parliamentary appropriation for operation, maintenance and interest charges		8,596,000
Loans from Canada for the acquisition of property		5,350,000
Revenues		769,000
		$ 25,117,000

Expenditures were $22,711,000 leaving an unexpended balance for the current year of $2,406,000. Of this, $1,731,000 related to funds provided for the National Capital Fund, increasing to $2,378,000 the balance available in the Fund for future expenditure, and $675,000 related to funds provided by loans from Canada, increasing to $3,383,000 the balance of loans available for future expenditure. At March 31, 1968 the Commission also had parliamentary authority to borrow a further $3,000,000 for property acquisitions in the Greenbelt, being the difference between the total amount of $40,900,000 authorized by Parliament for this purpose, and the $37,900,000 borrowed by the Commission. The following is a summary of expenditures for the past two years:

	Year ended March 31	
	1968	1967
Capital expenditures—		
Property acquisitions	$ 4,916,000	$ 7,505,000
Railway lines and structures	3,672,000	15,462,000
Roads, parkways, bridges and approaches	2,653,000	4,700,000
Other	628,000	629,000
	11,869,000	28,296,000
Operating expenditures—		
Interest charges on loans from Canada	3,783,000	3,781,000
Operation and maintenance of parks, parkways, government grounds, etc.	3,203,000	3,093,000
Planning, administration, etc.	1,880,000	1,410,000
Grants, assistance to municipalities, etc.	1,477,000	1,324,000
Payments in lieu of taxes	499,000	391,000
	10,842,000	9,999,000
	$ 22,711,000	$ 38,295,000

The Commission is committed under an agreement with the Canadian Pacific Railway Company and the Canadian National Railway Company to a major relocation of railway tracks, buildings and works in the Ottawa area and, on completion, to transfer to the railway companies title to land, buildings, tracks and other works which

were acquired or constructed by the Commission. In exchange, the Commission is to acquire certain property no longer needed by the railways. Pending completion, the total cost of this project, amounting to $39,307,000 at March 31, 1968, is included in capital assets of the Commission, although transfers to the railway companies of part of the facilities including the new Ottawa station had been made under agreements entered into prior to the year-end. Expenditures during the current year were $3,672,000 compared with $15,462,000 during 1966-67. The Commission estimates that a further $4,500,000 will be required for completion of the project, including indemnities to owners of abandoned railway sidings and certain track maintenance commitments.

Operating expenditures increased by $843,000, from $9,999,000 in 1966-67 to $10,842,000 in the current year. This increase partly resulted from higher salary costs, $1,759,000 in 1967-68 compared with $1,353,000 during the previous year. Grants and assistance to local municipalities under various cost-sharing agreements increased by $153,000 and payments in lieu of municipal taxes by $108,000.

Certain capital expenditures of the Commission are financed by loans from Canada. Funds for the payment of interest on these loans and for repayment of principal in certain cases are provided to the Commission from parliamentary appropriations in subsequent years. At March 31, 1968 outstanding loans from Canada totalled $75,116,000 compared with $74,286,000 at the end of the preceding year. Interest charges in 1967-68 amounted to $3,783,000 of which $486,000 was provided out of income of the Commission and $3,297,000 by parliamentary appropriation. Of loan repayments totalling $4,520,000 during the year, $272,000 represented the proceeds of sales and $4,248,000 was provided by parliamentary appropriations through the National Capital Fund. This procedure has been commented upon in previous Reports and is further dealt with in paragraph 239 of this Report. The subject has also been considered by the Public Accounts Committee and in its Seventh Report 1966-67 (see Appendix 1, item 18) the Committee noted the undertaking of the Department of Finance to review and discuss this practice with the Auditor General and asked that he report on the matter in due course. No discussion has yet taken place.

In the course of our examination of payments under contracts entered into by the Commission for works in the National Capital Area we noted five cases of non-productive expenditure. These are dealt with in detail in paragraph 116 of this Report.

287. *National Harbours Board.* This Board with its head office in Ottawa was established in 1936 by the National Harbours Board Act, *R.S., c.187,* and has jurisdiction over the harbours of St. John's, Halifax, Saint John, Belledune, Chicoutimi, Quebec, Trois-Rivières, Montreal (including the Jacques Cartier and Champlain Bridges), Churchill and Vancouver, together with grain elevators at Prescott and Port Colborne. The harbour at Belledune, N.B., was placed under the jurisdiction of the Board during the year.

The Crown's equity in the Board at December 31, 1967 was $465,554,000 comprising: equity represented by the cost of assets transferred to the Board on its establishment and subsequently, $72,993,000; loans and advances, $365,643,000; interest in arrears on loans and advances, $114,561,000; and reserves, $9,532,000; less accumulated deficit of

$97,175,000. The Crown also had an equity of $11,194,000 in certain projects on Board property in the Montreal Harbour relating to the Canadian Universal and International Exhibition, Montreal, 1967.

Montreal Harbour is adjacent to the site of the 1967 World Exhibition and some of the Board's properties were expanded to provide facilities to service the site. The larger projects involved the widening of MacKay Pier, the relocation of harbour railway tracks, the filling and grading of a parking lot, and the construction of a roadway which connects the University Street extension to the site and to the Champlain Bridge. The projects cost $11,194,000 and have been financed by parliamentary appropriations. By Order in Council, three parcels of land, comprising some 9.8 million square feet, situated at Montreal Harbour, and temporarily under the management and control of the Canadian Corporation for the 1967 World Exhibition, were transferred to the management, charge and direction of Central Mortgage and Housing Corporation for the two years ending December 31, 1969. At that date, the lands revert to the administration, management and control of the Board and the final allocation of the assets arising from the expenditure of $11,194,000 will be made.

During the year the identification of the land and water lots at St. John's Harbour was completed. The Board estimated the value of the land at $1,424,000 and added this amount to the capital assets.

As at December 31, 1967 the value of the land and water lots at Belledune had not been determined. We have recommended that the estimated value of this property be recorded consistent with other properties transferred to the Board.

During the year the Board's indebtedness to Canada for loans and advances increased by $21,855,000 while interest in arrears increased by $11,358,000. The latter has increased steadily in recent years as shown in the following table:

December 31, 1960	$ 59,008,000
December 31, 1961	64,786,000
December 31, 1962	71,290,000
December 31, 1963	78,559,000
December 31, 1964	86,204,000
December 31, 1965	93,285,000
December 31, 1966	103,203,000
December 31, 1967	114,561,000

In previous Reports we have observed that there was little prospect of the Board being able to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In February 1967 the Public Accounts Committee, in its Twelfth Report 1966-67, commented as follows (see Appendix 1, item 48):

> The Committee is concerned that there appears to be little prospect of the Board being in a position to meet its principal and interest obligations and recommends that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter will be dealt with by the Department of Finance and the Board within the next twelve months.

The financial structure of the Board has not been reconstituted although certain proposals made by the Department of Finance are still under study by the Board.

Current assets of the Board included the sum of $499,000 due from the Quebec Natural Gas Corporation for rental charges by the Board for the easement for a 20-inch natural gas pipeline over the Jacques Cartier Bridge. The amount represents $424,000 outstanding on December 31, 1966 plus $75,000 for 1967. In previous Reports we have noted that the authority for the installation of the pipeline was granted by the Board on May 1, 1959 subject to later negotiation of the annual rental rate but that the Corporation subsequently would not agree to the rate proposed and requested the Board to consider one that was little more than nominal. Agreement has still not been reached with respect to the rental charge and the Department of Justice is conducting legal proceedings against the Corporation.

Until revocation of tolls on June 1, 1962 the Jacques Cartier Bridge was operated under a tripartite agreement which required the City of Montreal and the Province of Quebec to pay to the Board one-third of any annual deficit arising from the operation of the Bridge to a maximum of $150,000 each. Since 1944 the Province has refused to make the required contributions and at the end of 1949 its accumulated indebtedness amounted to $744,425. From 1950 until revocation of tolls, the Bridge did not incur an operating deficit and the accounts of the Board continue to show this amount as due from the Province. Prior to September 1966 the Board was unable to institute legal proceedings against the Province without first obtaining a fiat from the Provincial Attorney General. In early 1967 the Board re-submitted its claim to the Province. It has since been determined that this matter falls within the ambit of the Treasury Board Advisory Committee on Real Property and the Chairman of this Committee has been supplied with details of the indebtedness.

In our 1966 and 1967 Reports (paragraph 244 in 1967) we stated that the dispute with the Canadian Pacific Railway, dating back to 1890, regarding the ownership of certain areas of Coal Harbour, Vancouver, was being resolved within the terms of a "Memorandum of Agreement" signed by both parties in June 1966. However, the necessary legal steps have not yet been completed and final settlement is still pending. Each party is continuing to collect and hold in trust, rentals and other revenues from areas in their possession. At December 31, 1967 the Board held $217,000 in cash and securities while the Railway held $305,000.

The following is a summary of the operations of the harbours and elevators and of the bridges for the past two years:

	Year ended December 31	
	1967	1966
Harbours and Elevators		
Operating income—		
Wharves and piers	$ 18,420,000	$ 18,258,000
Grain elevator systems	9,276,000	11,545,000
Cold storage systems	1,640,000	1,437,000
Permanent sheds	3,443,000	3,290,000
Railway systems	1,057,000	940,000
Miscellaneous	16,000	89,000
	33,852,000	35,559,000

	Year ended December 31 1967	1966
Operation, maintenance and administration—		
Wharves and piers	$ 11,213,000	$ 9,070,000
Grain elevator systems	9,667,000	10,867,000
Cold storage systems	1,763,000	1,623,000
Permanent sheds	4,885,000	4,052,000
Railway systems	1,749,000	1,426,000
Administration	3,256,000	2,856,000
Miscellaneous	11,000	29,000
	32,544,000	29,923,000
Net operating income	1,308,000	5,636,000
Income from investments	2,626,000	2,619,000
	3,934,000	8,255,000
Provision for interest on loans and advances	10,108,000	9,472,000
Net loss	$ 6,174,000	$ 1,217,000
Bridges		
Operating income—		
Jacques Cartier Bridge	$ 129,000	$ 130,000
Champlain Bridge	2,067,000	1,329,000
	2,196,000	1,459,000
Operating expense—		
Jacques Cartier Bridge	840,000	1,685,000
Champlain Bridge	1,213,000	899,000
	2,053,000	2,584,000
Net operating profit (loss)	143,000	(1,125,000)
Provision for interest on loans	2,660,000	2,122,000
Other interest (net)	59,000	59,000
	2,719,000	2,181,000
Net loss	$ 2,576,000	$ 3,306,000

The decrease in operating income for harbours and elevators, $1,707,000, resulted mainly from a reduction of 4,303,000 tons of water-borne cargo which totalled 71,885,000 tons in 1967. The decrease in volume was due mainly to a decrease of 3,629,000 tons of export wheat and 2,385,000 tons of domestic wheat, offset partly by an increase of 1,051,000 tons of petroleum and coal products handled.

At Quebec there was a reduction of $1,519,000 in revenue from the operation of the grain elevator, due to the leasing of the elevator to private interests as from April 30, 1967. Rental revenue totalled $443,000 for the balance of the year. Thus the net decrease in grain elevator revenue amounted to $1,076,000.

The only harbours experiencing significant increases in operating income were Vancouver and Churchill. At Vancouver, the increase, $562,000, was due mainly to the

introduction, in October 1966, of a surcharge of 20% on loading and unloading charges. At Churchill, the increase, $233,000, was due mainly to an increase of one cent per bushel in grain elevation charges.

Traffic across the Champlain Bridge for the year totalled 12,039,000 vehicles, an increase of 3,318,000 or 38% over the previous year, with a resulting increase of $738,000 in operating revenue. The increase is attributed to the opening of the Bonaventure and Decarie Autoroutes and to the 1967 World Exhibition.

Operation, maintenance and administration expenses of harbours and elevators increased by $2,621,000 of which $2,221,000 pertained to operation and maintenance and $400,000 to administration. The bulk of the increase in operation and maintenance was due to an increase of $952,000 in grants in lieu of municipal taxes, and $245,000 in depreciation. The balance of the increase can be attributed to increases in salary and wage rates granted by the Board, together with a general escalation in prices for supplies and stevedore services, offset in part by a decrease of $729,000 in the cost of operating the elevator at Quebec Harbour which was leased to private interests on April 30, 1967. The elevator was rented for a ten-year period at a rate of $664,000 per annum with a right of renewal for two additional periods of ten years each on terms to be determined by the Board. However, the lease has not been executed pending determination as to which party will be responsible for regular maintenance and major repairs and certain other details.

In previous Reports we have observed that the Board was required to pay workers for "dip-time", being the initial stages of unloading a grain vessel when only mechanical devices are used, in accordance with the collective bargaining agreements between the Board and the labour unions at Port Colborne and Prescott. The workers have continued to be paid for this time, the cost for the year being approximately $6,500.

During the year three non-productive payments were noted and these are dealt with in detail in paragraphs 134 and 135 and in item 7 of paragraph 211 of this Report.

Operating expense of the Champlain Bridge increased by $314,000 due mainly to additional police service required to handle the increased traffic during the 1967 World Exhibition and to the additional cost of maintaining the new Bonaventure Autoroute approaches. Operating expense of the Jacques Cartier Bridge decreased by $845,000 as no special maintenance projects were carried out in 1967.

We have drawn to the attention of management a number of serious delays in the billing of revenue and a number of transactions that are not being documented promptly. These have led to tentative bookkeeping entries with the necessary correcting entries being made in later years, non-billing and consequently non-collection of revenue, and litigation. The situation with regard to the Quebec Natural Gas Corporation and the lease with respect to the elevator at Quebec City which has not been executed, referred to previously, are cited as examples.

288. *Northern Canada Power Commission and subsidiary companies.* This Commission, established in 1948 under the Northern Canada Power Commission Act, *R.S., c. 196,* consists of three members appointed by the Governor in Council. The objects

of the Commission are to construct and operate electric power plants and to supply power to mines and other users in the Northwest Territories and the Yukon Territory and, with the approval of the Governor in Council, in any other part of Canada. The Commission, with its head office in Ottawa, operates fifteen power plants including a thermal-electric station at Coppermine, N.W.T., which was commissioned during the year.

On September 30, 1966, the Commission purchased all the shares of The Dawson City Water and Power Company, Limited, The Dawson Electric Light and Power Company, Limited, and The Yukon Telephone Syndicate, Limited. On that date the companies ceased operations when their assets were taken over and their liabilities assumed by the Commission. We have recommended that the companies be wound up and have been advised that this will be done as soon as possible. However, no action has yet been taken.

The Crown's equity in the Commission and subsidiary companies at March 31, 1968 was:

Advances	$ 33,300,000
Cost of:	
Central heating water and sewerage and fire alarm systems at Inuvik, N.W.T., financed by parliamentary appropriations	7,382,000
Extension, expansion and improvements of capital assets financed from earnings	757,000
Reserve for contingencies	2,190,000
Earned surplus	1,217,000
	$ 44,846,000

The Commission also acts as agent for Canada in respect of loans of $101,938,000 made to provincial power commissions under the Atlantic Provinces Power Development Act, *1957-58, c. 25.*

The following is a summary of the income and expense of the Commission and subsidiary companies for the past two years:

	Year ended March 31	
	1968	1967
Income—		
Sale of power	$ 4,235,000	$ 3,824,000
Income arising from construction, maintenance and operation of facilities for government departments and others	1,076,000	960,000
Sale of heat	1,005,000	994,000
Miscellaneous	239,000	246,000
	6,555,000	6,024,000
Expense—		
Operation and maintenance	3,956,000	3,575,000
Interest on advances from Canada	1,347,000	1,372,000
Depreciation	701,000	673,000
Administration	467,000	413,000
	6,471,000	6,033,000
Net income (loss)	$ 84,000	$ (9,000)

The increase in income from the sale of power is mainly attributable to increased demands for power to service the Whitehorse and Fort Smith communities, the operation for a complete year of the Cambridge Bay and Dawson plants, and the commencement of operations at the Coppermine plant in November 1967.

The foregoing, together with the effect for a complete year of the general salary revision granted to plant employees effective October 1, 1966, and normal salary increases, were the major factors contributing to the increase in operation and maintenance expense.

289. *Northern Ontario Pipe Line Crown Corporation.* This Corporation was established by the Northern Ontario Pipe Line Crown Corporation Act, *1956, c.10,* for the purpose of constructing the Northern Ontario section of the all-Canadian natural gas pipe line and leasing it to Trans-Canada Pipe Lines Limited, with an option to purchase.

In due course the pipe line was constructed and leased with an option to purchase. The option was exercised and the sale was completed on May 29, 1963. The purchaser assumed responsibility for the negotiation and settlement of all claims then outstanding and any other claims which might arise in the future. Upon receipt of payment the Corporation discharged its liability to the Crown for outstanding loans and interest accrued thereon, and was left with a surplus of $694,000 of which $690,000 was on deposit with the Receiver General. In July 1967, in accordance with a resolution of the Board of Directors, the Corporation's interest in the deposit of $690,000 was waived and the amount was transferred to revenue in the accounts of Canada.

Transactions in 1967 involved only bank interest revenue of $96 and expense of $111 mainly for purposes of the annual meeting and the wind-up of the Corporation's affairs. The remaining asset at December 31, 1967 was a bank deposit of $3,470.

The accounts were closed in early March 1968 when the bank deposit was transferred to revenue in the accounts of Canada. The Corporation ceased to exist on March 7, 1968, with the passing of the Northern Ontario Pipe Line Crown Corporation Dissolution Act, *1967-68, c.31.*

290. *Northern Transportation Company Limited and subsidiary companies.* Northern Transportation Company (1947) Limited, a wholly-owned subsidiary of Eldorado Mining and Refining Limited, was incorporated in 1947 under the provisions of the Canada Corporations Act, *R.S., c.53,* to take over the business of a predecessor company which had been incorporated under a Province of Alberta charter in 1934 and whose shares had been acquired when the capital stock of Eldorado Mining and Refining Limited was expropriated by the Crown in 1944. The corporate name was changed to Northern Transportation Company Limited in 1952. In 1965 the Company acquired the capital stock of three companies, Yellowknife Transportation Company Limited, Arctic Shipping Limited and Decury Supply Limited. The operations of these companies are now fully integrated with the parent company and consideration is being given to the surrender of their charters.

The Company is empowered to carry on a general transportation business by land and water throughout Canada and elsewhere. Although the head office of the Company is in Ottawa, administrative headquarters are in Edmonton and activities have been almost wholly confined to the Mackenzie River water system and the Western Arctic.

The equity of Eldorado Mining and Refining Limited in the Company at December 31, 1967 was $7,563,000 comprising capital stock of $152,000, a reserve for insurance of $500,000 and surplus of $6,911,000.

Two cargo vessels, 13 tugs and 113 barges were operated in 1967, a reduction of two tugs from the number operated in 1966. The consolidated result of operations of the Company and its subsidiaries for 1967 compared with 1966 follows:

	Year ended December 31	
	1967	1966
Income—		
Freight earnings	$ 4,073,000	$ 3,984,000
Expense—		
Operation and maintenance:		
Salaries and wages	1,495,000	1,518,000
Depreciation	872,000	727,000
Repairs and maintenance	584,000	637,000
Fuels and lubricants	245,000	266,000
Messing	113,000	126,000
Other	288,000	202,000
	3,597,000	*3,476,000*
Administration	405,000	370,000
	4,002,000	3,846,000
Net income from operations	71,000	138,000
Miscellaneous income	28,000	54,000
	99,000	192,000
Provision for income tax	40,000	86,000
Net income	$ 59,000	$ 106,000

Freight earnings increased by $89,000 to $4,073,000 in 1967 due to the higher revenue per ton earned on additional tonnage hauled to Great Bear Lake and the Western Arctic Ocean. The additional tonnage was, however, more than offset by the decrease in tonnage hauled in 1967 along the Mackenzie River due to the cessation of oil exploration in that area and to the completion of an all-weather road to Fort Smith in 1966, with the result that total freight hauled during the year decreased by 4,851 tons to 166,214 tons.

The decreases of $23,000 for salaries and wages, $21,000 for fuels and lubricants and $13,000 for messing were largely due to discontinuation of the operation of two tugs.

Depreciation increased by $145,000 largely as a result of providing depreciation for the first time on capital additions of $1,624,000 at Tuktoyaktuk, N.W.T.

The decrease of $53,000 for repairs and maintenance was due mainly to the larger than normal maintenance costs incurred in 1966 to bring the capital assets of the subsidiary companies up to the higher maintenance standard of the parent company.

Income from investments, included in miscellaneous income, decreased by $26,000 due to the use of the Company's short-term deposits as working capital throughout the shipping season.

Claims of undetermined amount have been received from Company employees for salvage services in respect of the Company's motor vessel Banksland and a barge which were released from Arctic Ocean ice by another company-operated vessel. The Company does not admit any liability.

291. *Polymer Corporation Limited and subsidiary companies.* Polymer Corporation Limited was incorporated in 1942 under the Canada Corporations Act, *R.S., c.53,* pursuant to the provisions of section 6 of the Department of Munitions and Supply Act, *1939, c.3,* for the purpose of producing synthetic rubbers and chemicals. Its head office is in Sarnia, Ont.

During the year three new subsidiaries were incorporated and the Company acquired all the outstanding capital stock in Société des Latex S.A., Fribourg, Switzerland, in which it previously had a 50% interest. At December 31, 1967 there were ten wholly-owned subsidiaries: two in Canada, Kayson Plastics & Chemicals Limited and Kaydot Plastics Limited; one in the United States, Polysar Incorporated; one in England, Polysar (U.K.) Limited; and six in continental Europe, Polysar Belgium N.V.; Polysar Nederland N.V.; Polysar International S.A.; Polysar Italiana S.p.A.; Synthetic Elastomers Development S.A.; and Société des Latex S.A. The Company also held a 95% equity in Polymer Corporation (SAF) in France and was a minority shareholder in companies in Mexico and South Africa in which it had invested $6,503,000.

The equity of the Crown in Polymer Corporation Limited and its subsidiary companies at December 31, 1967 was $103,131,000, comprising capital stock, $30,000,000 and retained earnings, $73,131,000. Dividends of $3,000,000 paid to the Receiver General in 1967 were $1,500,000 less than in 1966.

Net additions to fixed assets amounted to $21,457,000. Major additions included new styrene monomer facilities and a litol unit at Sarnia, continuous process facilities for polystyrene production at Preston, Ont., a butyl finishing line at Antwerp, Belgium, and latex and styrene-butadiene rubber facilities at Strasbourg, France.

Long-term liabilities increased by $18,895,000 to $40,853,000 at December 31, 1967 largely because of the sale of debentures totalling $15,000,000. These liabilities include $15,020,000 payable in Canadian currency and the balance in foreign currencies as follows: F. fr. 48,625,000 ($10,704,000), B. fr. 450,000,000 ($9,729,000), and U.S. $5,000,000 ($5,400,000).

The following is a summary of the operations of the Company and its subsidiarie for the past two years:

	Year ended December 31	
	1967	1966
Income—		
Sales	$ 127,381,000	$ 126,778,000
Other	1,546,000	760,000
	128,927,000	127,538,000
Expense—		
Cost of sales	107,872,000	102,605,000
Selling, administration and research	13,872,000	11,392,000
	121,744,000	113,997,000
Net income before provision for income tax	7,183,000	13,541,000
Provision for income tax	1,497,000	2,328,000
	5,686,000	11,213,000
Adjustment re minority shareholder	126,000	8,000
Net income	$ 5,812,000	$ 11,221,000

The decrease in net income of $5,409,000 is due mainly to a decline in the price received for many of the Company's products and increased costs of production whicl included start-up expenses of several new production facilities.

292. *The St. Lawrence Seaway Authority.* Established by the St. Lawrence Seawa Authority Act, *R.S., c.242,* the Authority maintains and operates the Canadian sectio of the 27-foot deep waterway between the Port of Montreal and Lake Erie, comprisin the Montreal—Lake Ontario Section and the Welland Canal. The section of the Seawa in the United States is operated by the Saint Lawrence Seaway Development Corporatior Toll revenues derived from the operation of the Montreal—Lake Ontario Section ar divided between the two Seaway entities in accordance with an agreement approved b the Governments of Canada and the United States.

The Authority also operates non-toll canals at Lachine, Que., Cornwall, Ont., an Sault Ste. Marie, Ont., the net operating cost being provided for by annual parliamentar appropriations.

The Authority is a corporation consisting of a president and two other member appointed by the Governor in Council. Its head office is at Ottawa, with operatin headquarters at Cornwall, Ont., and regional headquarters at St. Lambert, Que., an St. Catharines, Ont.

The Crown's equity in the Authority at December 31, 1967 was $561,725,000 com prising capital assets transferred from the Department of Transport (Welland Canal) $130,717,000, loans, $427,250,000, deferred interest, $54,468,000; less accumulated defici $50,710,000.

The overall operating results of the Authority in respect of the Montreal—Lake Ontario and of the Welland Sections of the Seaway for the past two years are as follows:

	Year ended December 31	
	1967	1966
Income—		
Tolls	$ 17,282,000	$ 17,282,000
The Seaway International Bridge Corporation, Ltd.—net income	158,000	182,000
Other	1,945,000	1,932,000
	19,385,000	19,396,000
Expense—		
Operation and maintenance	11,538,000	12,652,000
Engineering	2,341,000	1,755,000
Headquarters administration	2,117,000	1,804,000
Construction branch	2,009,000	1,807,000
Regional administration	1,565,000	1,426,000
	19,570,000	19,444,000
Portion allocated to:		
Construction	3,853,000	3,488,000
Non-toll canals	475,000	458,000
	4,328,000	3,946,000
	15,242,000	15,498,000
Net operating income before providing for interest and for replacement of machinery and equipment	4,143,000	3,898,000
Interest on loans from Canada	16,579,000	16,313,000
Provision for replacement of machinery and equipment	876,000	867,000
Interest on contractor's claim	21,000	—
	17,476,000	17,180,000
Net loss	$ 13,333,000	$ 13,282,000

The following summary shows the operating results of the Montreal—Lake Ontario Section for the year compared with the preceding year together with the cumulative operating results from the opening of the Seaway in 1959:

	Year ended December 31		Cumulative to December 31,
	1967	1966	1967
Income—			
Tolls	$ 16,356,000	$ 17,282,000	$ 104,655,000
Other income	935,000	1,051,000	4,485,000
	17,291,000	18,333,000	109,140,000
Expenses of operation, maintenance and administration	4,967,000	4,386,000	27,851,000
Net operating profit	12,324,000	13,947,000	81,289,000
Interest on loans	16,556,000	16,303,000	124,150,000
Provision for replacement of machinery and equipment	876,000	867,000	7,669,000
Assets written off	—	—	180,000
	17,432,000	17,170,000	131,999,000
Deficit	$ 5,108,000	$ 3,223,000	$ 50,710,000

Section 16 of the St. Lawrence Seaway Authority Act requires that the tolls provi revenue sufficient to defray the cost of operations including provision for repayment the capital indebtedness. The foregoing summary of operating results shows that sin the opening of the Seaway in 1959 a deficit of more than $50 million has accumulat without any provision for repayment of the capital indebtedness of $330 million whi the Act requires be met from earnings by December 31, 2009. If this obligation is to met, revenues over the 42 years from 1968 to 2009 must average over $25 million annual on the basis of 1967 costs. The revenues for 1967 were $8 million short of meeting th requirement.

The operating results of the Welland Section of the Seaway for the past two yea are as follows:

		Year ended December 31	
		1967	1966
Expenses of operation, maintenance and administration		$ 10,276,000	$ 11,112,000
Income—			
Lockage fees	$ 926,000		—
Rentals, wharfage, etc.	1,168,000		1,063,000
		2,094,000	1,063,000
Net operating loss		8,182,000	10,049,000
Interest on loans		43,000	10,000
Deficit recovered from parliamentary appropriation		$ 8,225,000	$ 10,059,000

With the opening of the Seaway in 1959 the operation and management of tl Welland Canal became a responsibility of The St. Lawrence Seaway Authority. Tol were suspended in 1962 and the annual operating deficits since 1959, totalling $53,500,0(to December 31, 1967, have been recovered from parliamentary appropriations.] 1967 a lockage fee of $20 a lock was introduced increasing by $20 a year to reach $1(a lock in 1971.

An agreement made in 1959 between the Authority and the Saint Lawrence Seaw Development Corporation established a joint tariff of tolls for the Seaway. The agre ment provided that the division of tolls from the operation of the Montreal—Lal Ontario Section would be initially 71% to the Authority and 29% to the Corporatio and that these percentages would be adjusted from time to time so that the Authori and the Corporation would receive a portion of the tolls in the ratio of their respecti annual charges for operation, maintenance, interest and retirement of debt to the combined annual charges in respect of that portion of the Seaway.

In March 1967 the Governments of Canada and the United States agreed to contin the existing schedule of tolls for the Montreal—Lake Ontario Section, to divide tol on the basis of 73% to the Authority and 27% to the Corporation, and that the su ficiency and division of tolls might, at the request of either entity, be reviewed at th

expiry of the 1970 navigation season, with a view to any necessary adjustment in accordance with the provisions of the 1959 agreement.

The original conditions under which loans were made to the Authority for the Montreal—Lake Ontario Section of the Seaway under section 25 of the Act required the payment of interest only, in the first three full years of operation (through the year ended December 31, 1962) and thereafter payment of annual amounts sufficient to amortize all loans and interest thereon over a period of forty-seven years (or by December 31, 2009). The terms of the Authority's financing arrangements were amended in 1961, 1963, 1964, 1967 and again in 1968, and now provide that loans in respect of the Montreal—Lake Ontario Section of the Seaway, together with interest, are to be repaid in such amounts each year as the cumulative net profit of the Montreal—Lake Ontario Section, before amortization of the loan principal, will permit. Unpaid interest bears interest until paid and the principal and interest are to be fully paid on or before December 31, 2009. At December 31, 1967, loans in respect of the Montreal—Lake Ontario Section amounted to $330,200,000 and unpaid interest to $53,450,000.

For the Welland Section, loans to finance improvements totalled $97,050,000 of which $72,500,000 is interest-free and the balance of $24,550,000, provided since September 22, 1966, bears interest which amounted to $1,018,000 at December 31, 1967. Interest on all such loans subsequent to September 22, 1966 is to be accrued in the accounts but is not to be paid until December 31 of the year in which the Minister of Transport determines that the Welland Canal twinning project is completed, at which time the terms of principal repayment for the loans are to be determined by the Governor in Council.

The costs of operating and maintaining the canals and works under the administration of the Authority are defined in section 16 of the St. Lawrence Seaway Authority Act as including all operating costs of the Authority and such reserves as may be approved by the Minister. The Authority is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance cost and that the amortization over the fifty-year period of the principal of the amounts borrowed together with interest meets the requirements of this section. Accordingly, no provision for depreciation has been included in the costs of the year. It is important to note, however, that no amortization of principal has been made up to December 31, 1967, and while interest has been accrued annually, payment of a substantial portion thereof has been deferred.

As in previous years, provision was made for replacement of lock, bridge and building machinery and equipment of the Montreal—Lake Ontario Section. The provision for 1967 amounted to $876,000 bringing the accumulated total to $7,410,000 at December 31, 1967. No provision was made in 1967 for replacement of machinery and equipment for the Welland Section.

Included in the capital assets is an amount of $1,277,500 representing the full engineering and preliminary construction costs of two highway tunnel projects on which work was abandoned due to the proposed re-alignment of the Welland Canal (see paragraph 187 of this Report).

The following items have been outstanding for several years:

(*a*) In 1956 an arrangement was made between the Authority and three municipalitie whereby the municipalities would contribute $250,000 towards the cost of extendin the collector sewer which was then being constructed as the main part of the Authority' South Shore remedial works. In 1961 two of the three municipalities passed officia resolutions to accept the 1956 proposal and to share in the $250,000 contribution. Th sewer extension was completed in 1963 at a cost of $480,000 and the municipalitie were billed in February 1964 for their contribution. No payment has been receive by the Authority from the municipalities, two of which are said to be under trusteeshi of the Province of Quebec because of financial difficulties. During 1966 the Departmen of Justice, on behalf of the Authority, appointed an agent to take legal proceeding which are still pending.

(*b*) The Beauharnois Canal, constructed by the Beauharnois Light, Heat and Powe Company, was conveyed to the Crown in 1932 with the Company, which has sinc been taken over by the Quebec Hydro-Electric Commission, retaining the responsibilit for certain operating and maintenance expenses of the Canal. The Canal becam part of the St. Lawrence Seaway in 1959. The Authority has not been reimburse its maintenance expenses on the Canal since 1962 as the Commission takes the stan that it is not responsible for these costs because of provincial legislation passed in 196 which dissolved the Beauharnois Light, Heat and Power Company. Settlement o the issue continues to rest with the federal and provincial governments.

The following table summarizes for the past two years the expense, income and cap ital expenditure relating to the non-toll canals operated or administered by the Authority

	Year ended December 31	
	1967	1966
Expense—		
Operation and maintenance	$ 2,058,000	$ 2,148,000
Grants in lieu of municipal taxes	469,000	769,000
Portion of Authority's administration and engineering expenses applicable to non-toll canals	475,000	458,000
	3,002,000	3,375,000
Income from rentals, wharfage, etc	707,000	696,000
Operating deficit	2,295,000	2,679,000
Capital expenditure	34,000	35,000
Operating deficit and capital expenditure recovered from parliamentary appropriation	$ 2,329,000	$ 2,714,000

The smaller deficit in 1967 was due mainly to a decrease of $300,000 in payments grants in lieu of taxes and to there being no counterpart in 1967 for a special grant $150,000 paid in 1966 to a municipality for assumption of responsibility for a bridge. Th decreases were partially offset by an increase of $70,000 in salaries, wages and employ benefits.

293. *The Seaway International Bridge Corporation, Ltd.* This Corporation was incorporated in 1962 under the Canada Corporations Act, *R.S., c.53*, pursuant to section 24A of the St. Lawrence Seaway Authority Act, *R.S., c.242*, as a subsidiary of The St. Lawrence Seaway Authority to operate and manage the international toll bridge between Cornwall, Ont. and Rooseveltown, N.Y. The bridge is jointly owned by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government corporation). The Authority's interest is represented by capital stock of $8,000 and promissory notes for $17,000 and the Corporation's interest by debentures of $8,000 and promissory notes for $17,000. Each entity has four representatives on the Board of Directors.

Under the terms of the bridge operating agreement between the Authority and the Corporation, the annual net income from operation of the bridge system is to be first applied towards the amortization of the cost, including interest, of the North Channel Bridge and the remainder, if any, divided equally between the Seaway entities.

The following is a summary of the operations of The Seaway International Bridge Corporation, Ltd. for the past two years:

	Year ended December 31	
	1967	1966
Income—		
Bridge tolls	$ 471,000	$ 408,000
Other	16,000	19,000
	487,000	427,000
Expense—		
Salaries, wages and employee benefits	185,000	171,000
Resurfacing on North Channel span	70,000	—
Maintenance materials and services	15,000	16,000
Rental of toll collection machines	13,000	13,000
Grant in lieu of municipal taxes	13,000	12,000
Advertising	11,000	10,000
Other	22,000	23,000
	329,000	245,000
Net income—transferred to The St. Lawrence Seaway Authority	$ 158,000	$ 182,000

The amount of $158,000 was transferred to The St. Lawrence Seaway Authority to be applied towards the amortization of the cost, including interest, of the North Channel Bridge. As this amount was insufficient to cover even the interest charges of $487,000 for the year, the unamortized balance increased by $329,000 from $9,724,000 at December 31, 1966 to $10,053,000 at December 31, 1967.

Departmental Operating Activities

294. A number of government departments engage in extensive trading and servicing activities including the buying and selling of commodities and the provision of services to the public and to other government departments. These activities cover a wide variety of operations and are carried out either directly by a department or indirectly through non-corporate agencies established for the particular purpose.

There is no statutory requirement that departments and non-corporate agencies engaged in trading and servicing activities prepare financial statements as is required for Crown corporations under section 85 of the Financial Administration Act. However a number of departments and agencies prepare such statements and some of these are examined and reported upon by the Audit Office.

In our opinion Parliament should in all cases be provided with comprehensive financial statements showing the results of these activities. Such statements should be on an accrual basis and should include charges for depreciation of buildings and equipment, interest on funds employed and the value of services provided without charge by other government departments. The operating results shown by the statement should be reconciled with those recorded on a cash basis. Each balance sheet, which the Audit Office would be prepared to examine and report upon, should show clearly the year-end position of the activity.

In its Fourth Report 1963 the Public Accounts Committee reiterated its belief that "it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts provided this can be done without undue cost or staff increases". It requested the Auditor General "to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course". (See Appendix 1 item 2.)

The Royal Commission on Government Organization in its report on Financial Management recommended that the accounts of departments and agencies conducting trading and servicing operations be maintained on an accrual basis to show clearly the costs of operations. The Commission also advocated greater use of revolving funds and accountable advances which would encourage the use of business-type budgeting and the production of meaningful operating statements.

In 1966 the Treasury Board issued a policy circular on the establishment and use of revolving funds—to be known thereafter as "working capital advances"—and recommended that they be used to finance specific activities and programs. This circular pointed out that the accounting system for an activity or program should incorporate all costs associated with it, including as memo items common service costs for which no charge is made. It requires that an annual report be prepared for each working capital advance comprising, where applicable, a balance sheet, a statement of operation

compared with the budget, and a statement of the disposition of the surplus or deficit. Implementation of this would be a step towards the objectives which we have been advocating, with the support of the Public Accounts Committee.

Some progress has been made and its extent is indicated by the statements of trading and servicing activities of a number of the larger departments and agencies presented in the paragraphs which follow.

295. *Agricultural Products Board.* This Board operates under the authority of the Agricultural Products Board Act, *R.S., c.4,* and consists of a chairman and two members appointed by the Governor in Council. The Act empowers the Board, under the direction of the Minister of Agriculture and subject to approval of the Governor in Council, to buy, sell, or import, and to store, transport or process agricultural products. The Agricultural Products Board Account was established in the Consolidated Revenue Fund in accordance with section 5 of the Act and all financial transactions of the Board are recorded in this Account. The Board's activities are administered by personnel of the Department of Agriculture and the members of the Board also serve on the Agricultural Stabilization Board.

The Crown's equity in the Account at March 31, 1968 was $433,000, represented by an inventory of 367,000 pounds of whole egg powder, at cost.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1968	1967
Trading operations—		
Sales	$ 1,310,000	$ 26,045,000
Cost of sales	1,577,000	32,868,000
Loss on trading operations	267,000	6,823,000

—by commodities, 1967–68—

	Sales	Cost of sales	Loss
Dry skim milk	$ 1,281,000	$ 1,545,000	$ 264,000
Condensed and evaporated milk	22,000	23,000	1,000
Eggs	7,000	9,000	2,000
	$ 1,310,000	$ 1,577,000	$ 267,000

	1968	1967
Estimated value of major services provided without charge by government departments—		
Interest on working capital	106,000	346,000
Accounting	6,000	40,000
Administration	2,000	5,000
	114,000	*391,000*
Loss for the year	$ 381,000	$ 7,214,000

	Year ended March 31	
	1968	1967
Loss for the year provided for by—		
Department of Agriculture Vote 17	$ 267,000	$ 5,663,000
Government departments which provided major services without charge	114,000	391,000
	381,000	*6,054,000*
Portion of loss not provided for in 1966–67, subsequently charged to 1967–68 Department of Agriculture Vote 17	—	1,160,000
	$ 381,000	$ 7,214,000

296. *Agricultural Stabilization Board.* This Board, consisting of three members appointed by the Governor in Council, was established by the Agricultural Stabilization Act, *1957-58, c.22,* and has the responsibility for stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilization measures take the form of the purchase of commodities at prescribed prices, payment to producers of amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold, or payments to processors for the benefit of producers. The Agricultural Commodities Stabilization Account established in the Consolidated Revenue Fund finances the activities of the Board. The net operating losses on the operations of the Account and the administration expenses of the Board are met from moneys appropriated by Parliament for the purpose.

There were no inventories at March 31, 1968 and the Crown had no equity in the Account at that date. Instead there was a deficiency in the Account of $1,476,000 representing a portion of the loss for the year which was not provided for by parliamentary appropriation. This deficiency was financed at the year-end by a customer's deposit of $74,000 and working capital advances of $1,402,000 provided under section 13 of the Agricultural Stabilization Act. (See paragraph 247 of this Report.)

The results of the Board's activities for the past two years are summarized as follows:

	Year ended March 31	
	1968	1967
Trading operations—		
Sales	$ 5,450,000	$ 51,935,000
Cost of sales	5,999,000	53,417,000
Loss on trading operations	549,000	1,482,000

—by commodities, 1967–68—

	Sales	Cost of sales	Loss
Cheese	$ 3,291,000	$ 3,825,000	$ 534,000
Butter	2,214,000	2,174,000	(40,000)
Pork (adjustment of prior years' sales)	(55,000)	—	55,000
	$ 5,450,000	$ 5,999,000	$ 549,000

	Year ended March 31	
	1968	1967
Payments for stabilization of the price of milk (including $124,114,000 paid to the Canadian Dairy Commission)	$ 131,808,000	$ 76,370,000
Deficiency payments—		
Sugar beets	5,438,000	10,150,000
Potatoes	2,466,000	—
Wool	944,000	648,000
Eggs	14,000	20,000
	8,862,000	*10,818,000*
Estimated value of major services provided without charge by government departments—		
Interest on working capital	3,419,000	3,391,000
Administration	474,000	656,000
Employee benefits	25,000	24,000
Accounting and postal services	22,000	214,000
Accommodation	19,000	31,000
	3,959,000	*4,316,000*
Loss for the year	$ 145,178,000	$ 92,986,000
Loss for the year partially provided for by—		
Department of Agriculture Vote 17	$ 139,743,000	$ 88,670,000
Government departments which provided major services without charge	3,959,000	4,316,000
	143,702,000	*92,986,000*
Portion of loss not provided for—to be recovered from future parliamentary appropriation	1,476,000	—
	$ 145,178,000	$ 92,986,000

The Government's program for stabilizing the price of milk during the year was carried out by the Canadian Dairy Commission to whom the Board paid $124.114,000 for the benefit of producers of manufacturing milk and cream delivered to plants in the period April 1, 1967 to March 31, 1968. This amount exceeded by $24,948,000 the total actually paid by the Commission to producers during the year. The excess was the estimated amount payable to producers after April 1, 1968 in respect of deliveries made in February and March 1968 plus $10,000,000 to cover an anticipated loss on the sale of stocks of dairy products held by the Commission at March 31, 1968. This procedure differs from that followed in previous years, when the Agricultural Commodities Stabilization Account was charged only with actual disbursements to producers and actual losses experienced during the year. (See paragraph 271 of this Report.)

297. *Agriculture Revolving Fund.* Vote 783 of Appropriation Act No. 5, 1955, *1955, c.60,* authorized the operation of a revolving fund for the purposes of financing the production of new and improved varieties of seeds and the acquisition, maintenance and development for experimental purposes of livestock, poultry and eggs, including administrative expenses of all authorized projects. The balance of the Fund may not exceed $620,000.

The Crown's equity in the Fund at March 31, 1968 was $251,000, represented by inventories of livestock, poultry, seeds and supplies, $239,000, and net accounts receivable, $12,000.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1968	1967
Cost of development and experimental projects—		
Salaries and wages	$ 377,000	$ 244,000
Livestock and seed	304,000	387,000
Feed and other supplies	151,000	139,000
Accommodation	86,000	37,000
Administration	53,000	54,000
Interest on working capital	12,000	23,000
Miscellaneous	26,000	28,000
	1,009,000	912,000
Proceeds from sales of livestock, poultry and seed crops	564,000	667,000
Net cost of projects for the year	$ 445,000	$ 245,000
Net cost of projects provided for by—		
Department of Agriculture appropriations	$ 408,000	$ 273,000
Government departments which provided major services without charge	101,000	62,000
	509,000	335,000
Less: Amount transferred from the Revolving Fund as revenue, as required by section 58 of the Financial Administration Act	64,000	90,000
	$ 445,000	$ 245,000

298. *Airport operations.* The capital investment of the Department of Transport in airports and associated facilities, including aircraft, aircraft spares and special equipment, as at March 31, 1968 was $711,555,000 compared with $685,900,000 at the end of the preceding year, a net increase of $25,655,000.

The following is a summary of the revenue from civil aviation airport operations for the year, together with comparable figures for the preceding year:

	Year ended March 31	
	1968	1967
Aircraft landing fees—		
Trans-oceanic	$ 7,171,000	$ 5,903,000
Domestic	5,767,000	4,741,000
Trans-border	2,267,000	1,422,000
Other	16,000	22,000
	15,221,000	12,088,000
Rentals—		
Office, shop and garage space	2,539,000	2,456,000
Living quarters	477,000	419,000
Hangar	127,000	121,000
Other	1,445,000	1,383,000
	4,588,000	4,379,000
Concessions—		
Gasoline and oil	3,662,000	2,792,000
Other	5,538,000	4,267,000
	9,200,000	7,059,000
Miscellaneous revenue	3,430,000	2,747,000
Total revenue	$ 32,439,000	$ 26,273,000

The provision for "Airports and Other Ground Services—Operation and Maintenance" (included in Department of Transport Vote 30) was charged with expenditures totalling $33,490,000 for the year 1967-68, an increase of $4,598,000 over the corresponding figure of $28,892,000 for the preceding year. The excess of expenditure on airways and airports (excluding new construction) over revenue received from airport operations was therefore $1,051,000, a decrease of $1,568,000 from the preceding year's figure of $2,619,000.

The operating results thus recorded are on a cash basis and do not include any provision for amortization of airport construction costs, interest on funds employed, or other costs such as a portion of the expenditure charged as air services administration, which would have to be taken into consideration if the actual cost of civil aviation airport operations were to be determined. The Department does, however, maintain accounts on an accrual basis for its operations at 17 of the major airports, which together account for approximately 87% of the revenue from civil aviation airport operations, and prepares therefrom periodic financial statements for management purposes.

In addition, in this year's Public Accounts, Volume II, pages 40.67 and 40.68, there appear Consolidated Statements of Operating Results and Investment Position for 190 airports for the years ended March 31, 1968 and March 31, 1967. These comparative statements, which include provision for depreciation, interest on investment, administrative overhead, and employee benefits, show that the Department incurred a loss of $56,742,000 on operations for the year, an increase of $444,000 over the loss of $56,298,000 for the preceding year.

299. *The Board of Grain Commissioners for Canada.* This Board, consisting of a chief commissioner and two other commissioners appointed by the Governor in Council, is responsible for the administration of the Canada Grain Act, *R.S., c.25,* including the inspection, weighing, storage and transportation of grain, the fixing of tariffs, the establishment of standards and any other matter relating to the handling of grain.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1968	1967
Expenditure—		
Salaries, allowances, etc.	$ 5,196,000	$ 5,238,000
Employee benefits	447,000	342,000
Rent	216,000	200,000
Travel	182,000	185,000
Equipment	165,000	81,000
Office supplies	93,000	84,000
Transportation and communications	78,000	71,000
Other	164,000	168,000
	6,541,000	6,369,000

	Year ended March 31	
	1968	1967
Revenue—		
Inspection	$ 3,006,000	$ 3,876,000
Weighing	1,491,000	1,901,000
Registrations and cancellations	88,000	116,000
Licences	28,000	28,000
Other	12,000	14,000
	4,625,000	5,935,000
Excess of expenditure over revenue	$ 1,916,000	$ 434,000
Excess of expenditure over revenue provided for by—		
Department of Agriculture Votes 50 and 51	$ 6,004,000	$ 5,954,000
Canada Grain Act, *R.S., c. 25*, section 4	68,000	53,000
Government departments which provided certain major services without charge	469,000	362,000
	6,541,000	6,369,000
Less: Revenue	4,625,000	5,935,000
	$ 1,916,000	$ 434,000

The decrease of $1,310,000 in revenue was the direct result of the movement of smaller quantities of grain.

300. *Canada Pension Plan Account.* The Canada Pension Plan, *1964-65, c.51*, provides for a comprehensive program of contributory old age pensions and supplementary benefits for most persons in the work force in Canada, whether employees or self-employed, with the exception of those in the Province of Quebec who are covered by a parallel provincial plan.

Section 110 of the Act established the Canada Pension Plan Account within the accounts of Canada to which all contributions, interest and other amounts received under the Plan are credited and to which benefits and other payments under the Plan, including administration costs, are charged. Section 111 established within the accounts of Canada the Canada Pension Plan Investment Fund in which investments in provincial and federal securities are recorded.

The Act requires the Minister of National Health and Welfare to make an annual report to Parliament on the administration of the Act, including a statement showing amounts credited to or charged to the Canada Pension Plan Account and the Canada Pension Plan Investment Fund during the year. There is no requirement in the Act for the Auditor General to report upon this statement although such a provision would appear desirable. However, as both the Canada Pension Plan Account and the Canada Pension Plan Investment Fund form part of the accounts of Canada, they are examined by the Auditor General under the provisions of sections 67 and 69 of the Financial Administration Act, *R.S., c.116*. This examination includes a verification, by test, of transactions in the two accounts, a review of accounting and internal control procedures and confirmation of the investments of the Fund at the year-end.

The following is a comparative summary of the transactions in the Canada Pension Plan Account for the past two years:

	Year ended March 31	
	1968	1967
Balance at beginning of year	$ 680,881,000	$ 89,406,000
Receipts—		
Contributions from employers and employees	640,244,000	587,202,000
Interest on investments	42,193,000	11,007,000
Interest on the operating balance	1,385,000	1,077,000
Other income	835,000	617,000
	684,657,000	599,903,000
Disbursements—		
Administration expenses	11,516,000	8,377,000
Retirement benefit payments	1,070,000	51,000
Survivors benefit payments	198,000	—
	12,784,000	8,428,000
Excess of receipts over disbursements	671,873,000	591,475,000
Balance at end of year	$ 1,352,754,000	$ 680,881,000
This balance comprised:		
Investment Fund	$ 1,280,788,000	$ 615,521,000
Operating balance	71,966,000	65,360,000
	$ 1,352,754,000	$ 680,881,000

Transactions are recorded in the Account on a cash basis and hence no amount has been included for contributions relating to periods prior to March 31, 1968 but received after the year-end or for accrued interest of $20,330,000 on investments.

The item "Other income" comprises $385,000 in penalties and interest on late payment of contributions, $341,000 received from the Quebec Pension Plan in respect of its share of charges relating to the registration of employees, $74,000 derived from electronic data processing services performed for others, and $35,000 in refunds of previous years' expenditures.

Retirement benefit payments commenced in January 1967 and there were 19,675 recipients of pension benefits at March 31, 1968, an increase of 16,200 from the previous year-end. Survivors benefit payments became payable in February 1968. Payments to March 31, 1968 were: death benefits, $185,000; widows pensions, $9,000; and orphans benefits, $4,000.

The following schedule shows the administration expenses charged to the Account during the year with respect to services provided to the Plan by various government agencies:

	Department of National Revenue (Taxation)	Department of National Health and Welfare	Department of Finance	Unemployment Insurance Commission	Total
Salaries	$ 3,979,000	$ 2,095,000	$ 563,000	$ 299,000	$ 6,936,000
Office expense, stationery and equipment	602,000	138,000	585,000	72,000	1,397,000
Travel	389,000	362,000	3,000	2,000	756,000
Employee benefits	400,000	239,000	62,000	17,000	718,000
Accommodation	282,000	278,000	59,000	27,000	646,000
Advertising	225,000	307,000	—	—	532,000
Other	179,000	206,000	90,000	56,000	531,000
	$ 6,056,000	$ 3,625,000	$ 1,362,000	$ 473,000	$ 11,516,000

Administration expenses increased from \$8,377,000 in 1966-67 to \$11,516,000 in 1967-68, a total of \$3,139,000, comprising mainly \$2,418,000 for salaries and employee benefits, \$551,000 for office expense, stationery and equipment and \$115,000 for accommodation.

We have noted in previous Reports (paragraph 257 in 1967) that the Treasury Board has given to the Department of National Health and Welfare, as the Department administering the Plan, the right to review and audit all charges made to the Canada Pension Plan Account by other departments and agencies. An interdepartmental committee, which was assigned the task of reviewing the manner in which costs were being allocated to the Plan by the administering departments and agencies and of recommending the manner in which the audit of charges should be made, completed its study in May 1968. It recommended that the audit be made by the servicing departments and agencies in conjunction with their own internal audit group. Pending the establishment of the departmental internal audit groups, an audit of charges against the Plan has not been made.

The Act restricts the investments of the Plan to securities of Canada or the provinces, or securities guaranteed by the provinces, which are not negotiable, transferable or assignable. The amount available for investment in provincial and federal securities at each month-end is determined by deducting from the uninvested balance in the Account the estimated amount required to meet all payments during the following three months. This amount is allocated monthly to the various provinces in the ratio that contributions originating in each province bear to the total of all contributions. Any balance not required for the purchase of securities offered by a province is to be invested in securities of Canada. The rate of interest on securities purchased for the Investment Fund is determined by the average rate of interest on outstanding obligations of Canada at the time of purchase.

At March 31, 1968 securities of Canada and the provinces bearing interest at rates varying from 5.29% to 6.53% were held as follows:

Ontario	$ 728,599,000
British Columbia	186,085,000
Alberta	113,333,000
Manitoba	76,412,000
Saskatchewan	55,557,000
Nova Scotia	47,862,000
New Brunswick	37,007,000
Newfoundland	23,693,000
Prince Edward Island	4,288,000
Quebec	2,244,000
Canada	5,708,000
	$ 1,280,788,000

Judges, and members of the Armed Forces and the Royal Canadian Mounted Police, employed in the Province of Quebec are excluded from participation in the Quebec Pension Plan and have been brought under the Canada Pension Plan. As their employment is in the Province of Quebec, their contributions and those of their employer to the Canada Pension Plan have been allocated to that Province and at March 31, 1968 Canada Pension Plan moneys amounting to $2,244,000 had been invested in securities of the Province of Quebec.

301. *Canadian Government Elevators.* The Canadian Government Elevators comprise six elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton, Lethbridge and Prince Rupert, which are operated by the Board of Grain Commissioners for Canada under authority of section 166 of the Canada Grain Act, *R.S., c.25,* and Order in Council P.C. 1372 of August 19, 1925.

The Crown's equity in the Elevators at March 31, 1968 was $14,152,000 represented by: fixed assets, $12,549,000; working capital, $1,600,000; and advances for recoverable freight charges, $3,000.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1968	1967
Income—		
Storage	$ 1,190,000	$ 316,000
Elevation	465,000	757,000
Screenings	263,000	227,000
Cleaning	53,000	100,000
Drying	25,000	106,000
Other	80,000	71,000
	2,076,000	1,577,000

	Year ended March 31	
	1968	1967
Expense—		
Salaries and wages	$ 1,098,000	$ 1,126,000
Employee benefits	88,000	70,000
Maintenance—buildings, plant and equipment	198,000	218,000
Grants in lieu of taxes	173,000	153,000
Power	114,000	110,000
Head office	90,000	81,000
Transportation and communications	16,000	16,000
Accounting and cheque issue	10,000	9,000
Other	15,000	16,000
	1,802,000	1,799,000
Operating profit (loss) without provision for depreciation	$ 274,000	$ (222,000)
Operating profit (loss) disposed of as follows—		
Income transferred or to be transferred to the Receiver General	$ 2,076,000	$ 1,577,000
Expense charged to—		
Department of Agriculture Vote 50	1,704,000	1,720,000
Appropriations of departments which provided certain major services without charge	98,000	79,000
	1,802,000	1,799,000
	$ 274,000	$ (222,000)

The increase in storage income was due to large stocks of grain remaining in some of the elevators throughout the year as a result of good crops and reduced export sales. As receipts of grain declined from 27.7 million bushels in 1966-67 to 12.9 million bushels in 1967-68, there were corresponding decreases in income from elevation, drying and cleaning.

A loss of $63,000 during the year by the Lethbridge elevator was the twenty-third consecutive annual loss, the accumulated deficits totalling $1,097,000.

302. *Canadian Government Printing Bureau.* The Printing Bureau, a branch of the Department of Defence Production, operates the printing plant in Hull, Que., and small printing units across Canada. Its operations are financed by means of a working capital advance (the Queen's Printer's Advance) provided for by section 37 of the Public Printing and Stationery Act, *R.S., c.226*. The Advance may not exceed $4 million plus the amounts due from government departments and agencies.

The Crown's equity in the Advance at March 31, 1968 was $510,000 represented by inventories of work in process, materials and supplies of $1,442,000, and petty cash of $1,000 offset by accounts payable to outside suppliers of $933,000. Additional equity of the Crown in the Bureau at March 31, 1968 is in the form of equipment at a cost value of $6,623,000 and in monotype, linotype and matrices with a cost value of $463,000. The cost of equipment purchased is charged to cost of sales in the year of acquisition and the cost of monotype and linotype metals is amortized over three years regardless of the extent to which the metal is used in any year.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1968	1967
Sales	$ 16,850,000	$ 15,794,000
Cost of sales	15,502,000	14,531,000
Gross profit	1,348,000	1,263,000
Administrative expense	743,000	690,000
	605,000	573,000
Discounts earned	23,000	8,000
Profit, transferred from the Advance account as revenue	$ 628,000	$ 581,000

Cost of sales does not include depreciation, interest on funds employed, or the value of accommodation and other services provided without charge by government departments. However, the full cost of equipment purchased during the year, $501,000, has been included. (See paragraph 245 of this Report.)

303. *Canadian Government Supply Service.* This Service, a branch of the Department of Defence Production, is financed by a revolving fund established on April 1, 1966 by Vote L18e, Appropriation Act No. 4, 1966, *1966-67, c.6,* for the purpose of acquiring and managing stores; for manufacturing, producing, processing or dealing in stores or materials; for the purchase and supply of repair services for office furniture and equipment; and for freight services. The purpose of the revolving fund was extended by Vote L13g, Appropriation Act No. 2, 1967, *1966-67, c.85,* and Vote L22a, Appropriation Act No. 7, 1967, *1967-68, c.8,* to include the procurement of insurance coverage at bulk rates on the movement of household effects; the financing of the cost of hotel accommodation in Montreal during the period of the Canadian Universal and International Exhibition in 1967; and the financing of the travel accounts rendered by carriers for services arranged by the Central Travel Service. The revolving fund may not exceed $10 million plus amounts owing to it by government departments and agencies.

The Crown's equity at March 31, 1968 was $4,668,000 represented by inventories of $5,456,000 and a deposit premium on transit insurance of $66,000, offset by accounts payable to commercial suppliers of $854,000.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1968	1967
Sales	$ 13,514,000	$ 16,528,000
Cost of sales	12,899,000	16,561,000
Gross profit (loss)	615 000	(33,000)
Discounts earned	71,000	45,000
Profit, transferred from the revolving fund as revenue	$ 686,000	$ 12,000

The cost of sales does not include interest on funds employed, administration expense, accommodation, equipment, etc., provided without charge by the Department of Defence Production and other government departments.

304. *Defence Production Revolving Fund.* Section 16 of the Defence Production Act, *R.S., c.62,* established the Defence Production Revolving Fund for the purpose of acquiring, storing, maintaining and transporting stocks of materials or defence supplies, and providing working capital loans and advances to persons engaged in defence work. The balance of the Fund may not exceed $100 million, a limit which has not been approached in recent years.

The balance of the Fund at March 31, 1968 was $39 million which included $7.8 million representing the cost of stolen cobalt and the inventory of strategic materials. The realizable value of these materials, estimated at not more than $2.7 million, and the potential losses are commented on in paragraph 246 of this Report.

Also included in the year-end balance were loans of $8.5 million to manufacturers to assist them in the acquisition of capital equipment. These loans, which were made contrary to section 16(2)(c) of the Defence Production Act, are commented on in paragraph 82 of this Report.

The Fund's operations for the past two years may be summarized as follows:

	Year ended March 31	
	1968	1967
Sales of defence supplies at cost	$ 25,400,000	$ 33,095,000
Interest income	$ 780,000	$ 1,012,000
Profit or (loss) on strategic materials sold	54,000	(76,000)
Surplus for the year	$ 834,000	$ 936,000

The surplus, together with $69,000 in interest collected during the year but which had been earned during the previous year, was transferred from the Revolving Fund as revenue in 1967-68.

305. *Fisheries Prices Support Board.* The Fisheries Prices Support Board, consisting of not more than six members appointed by the Governor in Council, was established under the Fisheries Prices Support Act, *R.S., c.120.* The Board is responsible for investigating and, where appropriate, recommending action to support the prices of fisheries products, in an endeavour to secure a fair relationship between the returns from fisheries and those from other occupations. Support measures take the form of the purchase of a fisheries product by the Board at a prescribed price or the payment to a producer of the difference between a prescribed price and a lower average price at which a product is sold during a specified period. The Act requires that an account called the Fisheries Prices Support Account be maintained to which shall be charged all expenditures other than administration costs which are met out of moneys appropriated by

Parliament for the purpose, and to which shall be credited the proceeds of sales of fisheries products. The Act also provides that the net operating profit in each fiscal year shall be deposited in the Consolidated Revenue Fund as revenue, and that the net operating loss in any fiscal year may be recouped from moneys appropriated by Parliament for the purpose.

The balance of the Account, $842,000, at March 31, 1968 includes the Crown's equity in the Account of $79,000, consisting of inventories of $25,000 and accounts receivable of $68,000 less accounts payable of $14,000, and the accumulated deficits of $763,000, incurred under a number of support programs extending back to 1962-63, the major portion being the 1967-68 loss of $552,000.

The results of the Board's activities for the year ended March 31, 1968 are summarized as follows:

	Sales	Cost of sales	Loss
Lake Erie yellow perch program	$ 381,000	$ 905,000	$ 524,000
Canned mackerel, 1967 program	76,000	98,000	22,000
Canned mackerel for the World Food Program	118,000	124,000	6,000
	$ 575,000	$ 1,127,000	$ 552,000

Failure to recoup losses annually through parliamentary appropriations results in the understatement of the expenditures applicable to the year and the improper inclusion of the accumulated deficit among the assets of Canada. (See paragraph 248 of this Report.)

306. *The National Film Board.* This Board was established in 1939 by the National Film Act, *R.S., c.185,* to initiate and promote the production and distribution of films in the national interest. The Act also established the National Film Board Operating Account in the Consolidated Revenue Fund. With the exception of expenditure on equipment acquired for its own use, which has been charged to National Film Board Vote 5, all expenditures of the Board are charged to the Account, including the cost of capital equipment acquired for the Canadian Government Photo Centre in Ottawa, as authorized by Vote L30, Appropriation Act No. 5, 1963, *1963, c.42.* The Account is credited with all moneys received from operations of the Board, including the sale and rental of films and other visual materials; amounts provided by National Film Board Vote 1, "Administration, Production, and Distribution of Films and Other Visual Materials"; and amounts transferred from appropriations of other government departments in respect of work undertaken for them.

The equity of the Crown at March 31, 1968 was $3,986,000, comprising capital equipment having a net book value of $2,047,000 and a balance of $1,939,000 in the National Film Board Operating Account, including $149,000 for equipment of the Canadian Government Photo Centre.

The following is a summary of expense and income for the past two years:

	Year ended March 31	
	1968	1967
Expense—		
Production of films and other visual materials for:		
National Film Board	$ 5,084,000	$ 4,541,000
Government departments and others	4,660,000	4,478,000
Distribution of films	3,646,000	3,199,000
Estimated value of major services provided without charge by government departments	1,743,000	1,334,000
Administration and general services	1,463,000	1,237,000
Depreciation on equipment	259,000	330,000
Fire loss replacement costs	47,000	—
	16,902,000	15,119,000
Income—		
Sale of films and other visual materials	5,235,000	5,074,000
Rentals and royalties	974,000	821,000
Miscellaneous	45,000	68,000
Canadian Government Photo Centre—net profit for the year	41,000	63,000
	6,295,000	6,026,000
Net expense	$ 10,607,000	$ 9,093,000
Net expense provided for by—		
National Film Board Vote 1	$ 8,663,000	$ 7,509,000
Less: Amount not used	58,000	80,000
	8,605,000	7,429,000
Government departments which provided major services without charge	1,743,000	1,334,000
Depreciation	259,000	330,000
	$ 10,607,000	$ 9,093,000

The increase of $1,783,000 in expense for the year was accounted for mainly by an increase of $798,000 in salaries and wages, an expenditure of $369,000 for a special film for the Canadian Pavilion at Expo '67, and an increase of $409,000 in the estimated value of major services provided without charge by government departments. The increase in salaries was due to annual pay increments and an increase in the number of full-time employees together with an increase in the number of casual employees required for the installation and operation of the Board's exhibit at Expo '67. The increase in the value of free services included $128,000 for additional accommodation provided by the Department of Public Works and a prior years' adjustment of $231,000 for contributions to the Public Service Superannuation Account. In previous Reports we have suggested that the value of services provided without charge by government departments be integrated into the costing system to provide more accurate and realistic costs of production and administration. We have been advised that the study of this subject has been completed by officers of the Board and that they have recommended to the Treasury Board as follows:

> Although consideration has been given to incorporating the estimated cost of free services into the cost system of the Board, it has been generally agreed that it would be more practical to defer such an undertaking until such time as an actual charge is made by departments for these services.

In July 1967 the Board suffered a fire loss of $158,000 made up of the replacement cost of films and prints destroyed, $93,000, displays, $34,000, sundry general stores, $15,000, and office furniture and equipment having a depreciated value of $16,000. The report on the investigation of the fire disclosed that the construction and facilities of the warehouse were totally inadequate for the safe storage of films having a cellulose-nitrate base.

307. *Post Office.* The Post Office Department operates under the authority of the Post Office Act, *R.S., c.212,* which provides that the Postmaster General shall administer, superintend and manage the Canada Post Office.

The following is a summary of the results of operations for the past two years as recorded by the Department in the Public Accounts:

	Year ended March 31	
	1968	1967
Gross postal revenue	$ 327,104,000	$ 295,443,000
Expenses paid from revenue	45,458,000	42,100,000
Net postal revenue	281,646,000	253,343,000
Other revenue—		
Miscellaneous	120,000	87,000
Estimated:		
Value of mail and other services provided without charge to other government departments	6,524,000	6,275,000
Interest on Money Order Account	2,212,000	2,511,000
Interest on funds in Savings Bank Account	1,063,000	1,158,000
	9,919,000	*10,031,000*
	291,565,000	263,374,000
Expenditure from parliamentary appropriations—		
Operations	205,596,000	181,787,000
Transportation	87,095,000	78,904,000
Administration, financial services, etc	9,155,000	7,803,000
Interest on Savings Bank accounts—		
Department of Finance	474,000	516,000
	302,320,000	*269,010,000*
Estimated value of major services provided without charge by other government departments—		
Accommodation	38,871,000	27,811,000
Contributions to:		
Public Service Superannuation Account	11,710,000	9,439,000
Canada Pension Plan and Quebec Pension Plan	3,028,000	2,857,000
Employee group surgical-medical insurance	1,804,000	1,137,000
Accounting and cheque issue services	590,000	638,000
Employee compensation	433,000	246,000
	56,436,000	*42,128,000*
	358,756,000	311,138,000
Net operating deficit	$ 67,191,000	$ 47,764,000

The $32 million increase in gross revenue was due chiefly to increases of $20 million in the revenue from postage meters and registers and $8 million from the sale of postage stamps. The $33 million increase in expenditure from parliamentary appropriations was due mainly to increased salary costs of $22 million and an increase in costs of mail conveyance of $8 million.

The estimated value of accommodation increased by $3.5 million because of an increase in the cost of space and the use of additional space, and by a further $7.5 million because of a more precise calculation of the amount of space occupied than that made in the previous year.

In summarizing its operations for the year 1967-68 the Department has again included three items which prior to last year had not been taken into consideration in reporting the net operating deficit or surplus of the Post Office in the Public Accounts. These items are:

	Year ended March 31	
	1968	1967
Revenue—		
Interest on Money Order Account at 5½%	$ 2,212,000	$ 2,511,000
Interest on funds in Savings Bank Account at 5½%	1,063,000	1,158,000
	3,275,000	3,669,000
Less:		
Interest paid on Savings Bank accounts at 2½%	474,000	516,000
Total additional revenue recorded (net)	$ 2,801,000	$ 3,153,000

Interest paid on Savings Bank accounts continues to be recorded as expenditure of the Department of Finance and that Department benefits, through lower interest costs, from the large balances in the Money Order Account and the Savings Bank Account.

As we stated in paragraph 263 of last year's Report, it is improper for a department to take unilateral action in such circumstances and, if the Post Office Department is to receive credit for the value of the balances held in these two Accounts, the Department of Finance must give recognition to these additional costs.

308. *Queen's Printer—publishing activities.* In accordance with the provisions of the Public Printing and Stationery Act, *R.S., c.226,* and Orders in Council made pursuant to the Public Service Rearrangement and Transfer of Duties Act, *R.S., c.227,* the Department of Public Printing and Stationery is charged with the function of procurement of print for books and publications and with the distribution of parliamentary, departmental and other publications. The operations include the printing of the Canada Gazette, the Statutes of Canada and other government publications.

A summary of expenditure and revenue for the past two years follows:

	Year ended March 31	
	1968	1967
Expenditure—		
Printing of official documents	$ 2,911,000	$ 2,414,000
Administration	2,012,000	1,698,000
Postage	766,000	755,000
Accommodation	395,000	331,000
Publications of international organizations	92,000	—
	6,176,000	5,198,000
Revenue—		
Sales of publications	3,148,000	2,114,000
Art work	44,000	24,000
Royalties	24,000	41,000
Other	2,000	37,000
	3,218,000	2,216,000
Excess of expenditure over revenue	$ 2,958,000	$ 2,982,000
Excess of expenditure over revenue provided for by—		
Department of Public Printing and Stationery Vote 1	$ 4,782,000	$ 4,021,000
Adjustment of amounts credited to revenue in previous years (statutory)	92,000	—
Government departments which provided major services without charge	1,302,000	1,177,000
	6,176,000	5,198,000
Non-tax revenue	3,218,000	2,216,000
	$ 2,958,000	$ 2,982,000

Final settlements with the several international organizations for the purchase of publications formerly held on a consignment basis resulted in an adjustment of $92,000 in amounts credited to revenue in previous years. Almost all settlements have now been made. Because of deficiencies in the Department's records, the majority of settlements were arrived at on a net value basis.

Expenditure for the year was $978,000 or 19% over the preceding year, due mainly to special projects for Centennial Year. Costs of printing official documents include an estimated $79,000 for documents distributed free to Members of Parliament and to organizations approved by the Treasury Board. The Department handles the distribution of publications for several government departments and agencies at an estimated annual cost of $150,000 without recovering the costs incurred from the departments.

Vote L33a, Appropriation Act No. 10, 1964, *1964-65, c.34,* as amended by Vote L65e, Appropriation Act No. 4, 1966, *1966-67, c.6,* established a revolving fund for the purpose of paying for print purchased from commercial printers. The revolving fund may not exceed $250,000 plus amounts due by government departments and agencies. The balance of the fund at March 31, 1968 was $51,824 representing amounts owing by departments and agencies. In our opinion the use of this particular revolving fund results in a duplication of the paying process. (See paragraph 167 of this Report.)

The sales operation of the Department is handled by a mail order office in Hull, Que., and by six Queen's Printer's bookshops located in the larger Canadian cities. In addition, sales counters are located in the Parliament Buildings and the National Gallery

in Ottawa. A sales counter was also located in the Canadian Pavilion during the 1967 World Exhibition in Montreal.

In previous years (paragraph 264 in our 1967 Report) we have reported the lack of adequate control over the Department's stock of publications held for sale at the headquarters in Hull and at the several bookshops, the retail value of which at March 31, 1968 was estimated by the Department to be in excess of $7,000,000. During the year, the Department and the Comptroller of the Treasury carried out an extensive study of the Department's operations and developed a detailed financial management plan for the Department. As a result, the Department had by the year-end established a computerized record of bulk store receipts and issues of publications. However, inventory control remains to be established for mail order stores, international publications stores and the substantial consignment stock held by several government departments. Because of personnel problems and the changes in the accounting system, the several stocktakings of bookshops carried out by headquarters' staff during the year were not reconciled with headquarters' records at March 31, 1968. There is thus no assurance that the value of bookshop stocks recorded in the control accounts at headquarters reflects the value of books on hand at the year-end.

A bulk publications store, which functions solely as a warehouse from which the mail order office, bookshops, sales agencies and consignment agencies draw their supplies, has been under the control and supervision of the Canadian Government Supply Service since 1965. However, in November 1967 the Department took over the responsibility for the stock records. Included in the bulk store stock is a quantity of National Gallery painting reproductions, with a retail value in excess of $200,000, estimated to be sufficient to meet sales requirements for the next ten years. The Department of Public Printing and Stationery has not been charged by the Supply Service for shipping and receiving services or for the substantial cost of controlling and supervising the bulk store.

309. *Royal Canadian Mint.* The Royal Canadian Mint operates under Part II of the Currency, Mint and Exchange Fund Act, *R.S., c.315,* and provides facilities for making coins of the currency of Canada, and for melting, assaying and refining gold.

The following is a summary of the results of operations for the past two years:

			Year ended March 31	
			1968	1967
Sales—	Other than coin	Coin at face value		
Gold	$ 68,687,000	$ 4,373,000	$ 73,060,000	$ 83,987,000
Silver	389,000	26,280,000	26,669,000	25,117,000
Bronze	5,000	3,648,000	3,653,000	2,427,000
Nickel	24,000	3,741,000	3,765,000	743,000
	$ 69,105,000	$ 38,042,000	107,147,000	112,274,000

		Year ended March 31 1968	1967
Purchase price of metals sold or used for coinage		$ 96,803,000	$107,168,000
		10,344,000	5,106,000
Gold refining charges, etc		328,000	324,000
Revenue from bullion and coinage		10,672,000	5,430,000
Other revenue—			
Numismatic receipts		13,469,000	2,725,000
Less: Face value of coin	$ 6,648,000		1,218,000
Shipping expense	354,000		76,000
Metal in medallions sold	241,000		118,000
Provincial sales tax	28,000		—
		7,271,000	1,412,000
		6,198,000	1,313,000
Gold storage and other charges		281,000	118,000
		6,479,000	1,431,000
Total revenue		17,151,000	6,861,000
Expenses of operation, maintenance and administration—			
Salaries and wages		2,007,000	1,831,000
Employee benefits		128,000	148,000
Supplies		1,279,000	806,000
Express on coin shipments		341,000	236,000
Accommodation		248,000	172,000
Security		166,000	130,000
Construction or acquisition of equipment		147,000	135,000
Repairs and maintenance		94,000	194,000
Power, light and gas		55,000	53,000
Other		43,000	66,000
		4,508,000	3,771,000
Net profit		$ 12,643,000	$ 3,090,000
Net profit disposed of as follows—			
Non-tax revenue		$ 17,151,000	$ 6,861,000
Expenses provided for by—			
Department of Finance Votes 30 and 35		3,997,000	3,218,000
Government departments which provided major services without charge		511,000	553,000
		4,508,000	3,771,000
		$ 12,643,000	$ 3,090,000

The increase of $10,290,000 in revenue, from $6,861,000 to $17,151,000, was due partly to an increase in the number of coins issued, from 339 million pieces in 1966-67 to 578 million pieces in 1967-68, and an increase in the sales of uncirculated coin sets. In addition to the increased unit volume of sales, the composition of the silver coinage was changed during the year from 800 parts silver and 200 parts copper to 500 parts silver and 500 parts copper.

The increase in the cost of supplies was due to the issue of special coin sets in presentation cases for Centennial Year.

At the commencement of our annual examination of the store of bullion and coin we found that coin sets valued at $692,000 had been shipped by a Mint employee without *bona fide* orders and without payment having been deposited to the credit of the Receiver General. To the best of our knowledge full payment for these sets has been made and no loss resulted. (See paragraph 90 of this Report.)

310. *Unemployment Insurance Fund.* The Unemployment Insurance Act, *1955, c.50,* (superseding *1940, c.44*), provides for insurance against unemployment and for the maintenance of a national employment service. The portion of the Act relating to insurance against unemployment is administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the Governor in Council. The portion relating to the national employment service has been the responsibility of the Minister of Manpower and Immigration since October 1, 1966, pursuant to the Government Organization Act, 1966, *1966-67, c.25.*

In 1965 the Unemployment Insurance Commission was assigned responsibility for administration of the Transitional Assistance Plan under which workers in automotive manufacturing and parts industries who became unemployed as a result of the operation of the Canada-United States Agreement on Automotive Products may be given financial assistance in addition to that provided by unemployment insurance during the period required to adjust to new employment conditions.

The Act established the Unemployment Insurance Fund as a special account in the Consolidated Revenue Fund to which all contributions from insured employees and their employers, and the Federal Government contributions equivalent to one-fifth of the total employee-employer contributions, together with interest on investments, are credited, and to which benefits and other payments under the Act are charged.

Financial statements showing the operations of the Fund during the fiscal year and the state of the Fund at the end of the year are prepared annually by the Commission. In our 1960 and subsequent Reports attention was drawn to the fact that the Act does not require that these financial statements be audited. The Public Accounts Committee has made reference to this in a number of its reports, the last being in its Fourteenth Report 1966-67 (see Appendix 1, item 8), recommending that these statements be required by statute to be prepared by the Commission and reported upon by the Auditor General. Although the Act has not yet been amended, the Commission submits its financial statements to the Audit Office for examination, and the statements

for the year ended March 31, 1968, together with our report thereon to the Minister of Labour, are reproduced in the Public Accounts, Volume II, pages 42.6 to 42.9.

The following is a summary of the Fund's transactions for the past two years, together with the year-end balances at the credit of the Fund:

	Year ended March 31	
	1968	1967
Receipts—		
Contributions from employers and employees	$ 347,458,000	$ 343,853,000
Contributions from Canada	69,491,000	68,771,000
Income from investments	15,894,000	10,931,000
Penalties	188,000	172,000
	433,031,000	423,727,000
Disbursements—		
Benefit payments	388,582,000	307,007,000
Excess of receipts over disbursements	44,449,000	116,720,000
Balance at beginning of year	258,203,000	141,483,000
Balance at end of year	$ 302,652,000	$ 258,203,000

Disbursements from the Fund do not include the administration expense of the Commission which amounted to $46,613,000 in 1967-68 compared with $44,436,000 for the preceding year, an increase of $2,177,000. This expense was met to the extent of $37,659,000 ($37,334,000 for 1966-67) by funds provided by Unemployment Insurance Commission Vote 1 in accordance with section 10 of the Act and to the extent of $8,954,000 ($7,102,000 for 1966-67) by government departments which provided accommodation for the Commission's offices throughout Canada, contributions to the Public Service Superannuation and Canada Pension Plan Accounts and accounting and other services, without charge.

Major services provided by government departments without charge accounted for $1,852,000 of the increase of $2,177,000 in administration expense. The major increases were in the charges for contributions to the Public Service Superannuation Account, $691,000, accounting services, $666,000, and accommodation for the Commission's offices, $360,000. Salaries, wages and allowances were slightly higher by $284,000, notwithstanding a reduction of 142 in the number of regular employees on strength (from 5,107 at March 31, 1967 to 4,965 at March 31, 1968). Travelling and removal expense rose by $255,000 due primarily to the closing of 46 offices in the year and the consequent transfer of their functions and personnel to adjacent centres. There was a reduction of $233,000 in commissions paid to the Post Office as a result of an increase in the number of employers who made their contributions by the bulk payment method rather than by the purchase of unemployment insurance stamps and meter impressions.

In 1967-68 the Fund's excess of receipts over disbursements was $44,449,000 compared with $116,720,000 in 1966-67. Contribution receipts were slightly higher (1%) than those of the previous year but benefit payments increased by 26% from $307,007,000

in 1966-67 to $388,582,000. There were increases in the percentage of the insured population drawing benefits, the number of claims allowed, the average number of benefit weeks paid and the average weekly benefit rate paid. Comparisons follow:

	Year ended March 31	
	1968	1967
Average monthly percentage of the insured population drawing benefits	6.1%	5.2%
Number of initial benefit claims allowed	1,208,248	1,053,412
Average number of benefit weeks paid	13.2	12.6
Average weekly benefit rate paid	$ 25.81	$ 24.92

In keeping with past practice, we reported to the Chief Commissioner on each of the examinations of field offices made during the year. Prompt attention was given to all audit observations and corrective action was taken where required. Our examinations are designed primarily to test the adequacy of internal control over contributions, other income, benefit payments and the collection of overdue contributions, penalties and benefit overpayments. The extent to which adjudication of claims complies with the provisions of the Act and regulations is also tested. In appraising the validity of benefit awards, no attempt is made by the Audit Office to verify the accuracy or completeness of information regarding claimants contained in the records of the Commission, beyond questioning apparent deficiencies in these records. This aspect of the verification of claims is carried out by the Commission's own investigation-enforcement staff.

No attempt is made by this Office to audit the accounts of employers to see that employer-employee contributions are fully made to the Unemployment Insurance Fund and that each worker is credited with the proper contributions. These records are verified by the Commission's internal audit division.

Special Audits and Examinations

311. In addition to the examinations of the accounts of the departments and agency and proprietary Crown corporations referred to in this Report, the following special audits and examinations were made by the Audit Office during the year, most of them in accordance with specific directions contained in various statutes:

The Army Benevolent Fund Board
Atlantic Development Board
The Canada Council
The Custodian
Economic Council of Canada
Exchange Fund Account
Government of the Northwest Territories
Government of the Yukon Territory
Municipal Development and Loan Board
National Arts Centre Corporation
National Gallery of Canada
The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children
Roosevelt Campobello International Park Commission
Royal Canadian Mint stocks

312. Section 34 of the Public Printing and Stationery Act, *R.S., c.226,* provides in part that:

> The Auditor General shall, annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied.

With effect from April 1, 1966, all stationery, printing materials and supplies referred to in section 34 of the Act were taken over by the Canadian Government Supply Service of the Department of Defence Production and consequently there were no inventories to check in accordance with this provision as they no longer remained a charge to the Queen's Printer's Advance Account. (See paragraph 168 of this Report.) The accounts of the Canadian Government Supply Service are audited in accordance with the requirements of the Financial Administration Act.

313. *The Army Benevolent Fund Board.* This Board was constituted by the Army Benevolent Fund Act, *R.S., c.10,* and consists of five members appointed by the Governor in Council. The Act provides for a special account in the Consolidated Revenue Fund called the Army Benevolent Fund to which certain moneys were credited and from which there shall be paid

> to or for the benefit of [World War II] veterans or their dependants or the widows or children or former dependants of deceased veterans such amounts as the Board may from time to time determine

together with the expenses incurred in carrying out the provisions of the Act.

The Act directs that the Board be governed by the following principles:

(a) plans shall be formulated on the assumption that there will be prospective beneficiaries for fifty years from the establishment of the Fund [in 1947];

(b) no grant is to be made by way of relief from the Fund where adequate relief is, at the time of the application, available from federal, provincial or municipal governmental sources;

(c) where grants are made to assist in the education of dependants of veterans or of children of deceased veterans, bursaries shall be granted contingent on continued need and satisfactory progress and not as competitive scholarships based on academic standing; and

(d) amounts paid out of the Fund are not recoverable unless obtained by fraud or misrepresentation.

The accounts of the Board were examined for the year ended March 31, 1968 pursuant to section 11 of the Act and our report was submitted to the Chairman and members of the Board with a copy being provided to the Minister of Veterans Affairs.

Receipts amounted to $241,000 of which $229,000 was derived from interest on deposits with the Receiver General and $12,000 from interest on Canada bonds. Disbursements totalled $448,000 consisting of $347,000 in grants to or on behalf of World War II veterans and $101,000 for administrative and case work expense. The latter was a net amount after deducting a fee of $42,000 for management of the financial program of the Canadian Army Welfare Fund and a grant of $18,000 from the Department of Veterans Affairs to assist in defraying administrative expenses.

After absorbing the excess of disbursements over receipts amounting to $207,000, the balance of the Fund was $5,015,000 at March 31, 1968 of which $4,755,000 was on deposit with the Receiver General, $256,000 was invested in Canada bonds and $4,000 was represented by accountable advances and prepaid expense.

314. *Atlantic Development Board.* This Board was established by the Atlantic Development Board Act, *1962-63, c.10.* The objects of the Board are to investigate programs and projects for fostering the economic growth and development of the Atlantic region of Canada and to make appropriate recommendations to the Minister responsible for the Board. The Board is authorized to enter into agreements with any of the four Atlantic provinces, subject to the approval of the Governor in Council, or to enter into agreements with any other person, for programs and projects that, in its opinion, will contribute to the growth and development of the Atlantic Region and for which satisfactory financing arrangements are not otherwise available.

The programs and projects are financed from the Atlantic Development Fund, up to a maximum of $150 million, and from parliamentary appropriations of the Department of Transport.

Pursuant to section 18 of the Act, we have audited the accounts and financial transactions of the Board and have reported thereon to the Board and to the Minister of National Health and Welfare.

A summary of the Board's expenditure for the past two years with cumulative figures from its establishment on December 20, 1962 to March 31, 1968 follows:

	Year ended March 31 1968	Year ended March 31 1967	Cumulative to March 31, 1968
Atlantic Development Fund—			
Power	$ 7,396,000	$ 21,615,000	$ 46,457,000
Trunk highway program	1,281,000	2,705,000	9,643,000
Access roads	144,000	411,000	555,000
Water supply and/or sewage systems	3,766,000	2,077,000	6,957,000
Industrial park facilities	1,507,000	2,381,000	4,005,000
Research facilities	1,851,000	349,000	2,333,000
Miscellaneous projects	2,680,000	22,000	2,733,000
Sundry expenditure	4,000	7,000	14,000
	18,629,000	*29,567,000*	*72,697,000*
Parliamentary appropriations of the Department of Transport—			
Trunk highway program	19,283,000	8,557,000	29,935,000
Grant to the Government of Nova Scotia to assist in defraying the expenses of operating the former Dominion Steel and Coal Corporation Limited steel plant at Sydney, N.S.	2,000,000	—	2,000,000
Special housing and mobility assistance to residents of Bell Island	295,000	—	295,000
	21,578,000	*8,557,000*	*32,230,000*
Total expenditure on programs, projects, etc.	40,207,000	38,124,000	104,927,000
Administration and operation expenditure	2,265,000	1,867,000	5,845,000
	$ 42,472,000	$ 39,991,000	$ 110,772,000

Outstanding commitments under programs financed out of the Atlantic Development Fund at March 31, 1968 totalled $51,972,000 including $357,000 with respect to the Federal Government's share, $10 million, of the cost of the first trunk highway program in the four Atlantic provinces. The uncommitted balance in the Fund was $25,331,000 at the year-end.

A second and third trunk highway agreement entered into with the Atlantic provinces provided for additional assistance of $30 million and $25 million respectively, to be financed by Department of Transport Vote 112 of 1965-66 and Vote 95a of 1967-68. The total expenditure charged to these votes to March 31, 1968 amounted to $29,935,000 leaving outstanding commitments at that date of $25,065,000.

Department of Transport Vote 100a authorized expenditures not exceeding $1,750,000 in the current and subsequent fiscal years for assistance to residents of Bell Island, of which $295,000 was expended during the year, leaving $1,455,000 available for expenditure in future years.

Expenditure from the Atlantic Development Fund on miscellaneous projects included an amount of $277,000 paid with Treasury Board approval to The Fathers of Confederation Memorial Citizens Foundation, Charlottetown, P.E.I. A further amount

of $279,000 was paid to the Foundation in May 1968. The total of the two amounts, $556,000, represented the excess of the actual cost over $5.6 million, the originally estimated cost to the Foundation of constructing the Confederation Centre at Charlottetown, a project to which the Centennial Commission had contributed $2.8 million in 1964. In agreeing to absorb these costs two years after the Centre had been completed, it is open to question whether the Board was in fact undertaking a project within the meaning of the Act. (See paragraph 62 of this Report.)

Details of the Board's administration and operation expense shown in totals only in the preceding summary are as follows:

	Year ended March 31		Cumulative to
	1968	1967	March 31, 1968
Planning, programming and general administration—			
Salaries and employee benefits	$ 616,000	$ 463,000	$ 1,522,000
Travel and removal	52,000	51,000	167,000
Accommodation	39,000	18,000	99,000
Accounting services	35,000	24,000	76,000
Office equipment and supplies	35,000	26,000	92,000
Telephone and telegraph	22,000	20,000	58,000
Other	29,000	11,000	60,000
Professional and technical services	1,437,000	1,254,000	3,771,000
Total expense	$ 2,265,000	$ 1,867,000	$ 5,845,000
Total expense provided for by—			
Department of Transport Vote 90	$ 2,191,000	$ 1,825,000	$ 5,670,000
Government departments which provided accommodation and accounting services without charge	74,000	42,000	175,000
	$ 2,265,000	$ 1,867,000	$ 5,845,000

The increase of $153,000 in salaries and employee benefits was due to an increase in staff as well as a general increase in salary rates. Other increases in planning, programming and general administration expense reflect the expanding activities of the Board. The total regular staff employed by the Board was 64 at the year-end compared with 52 at the end of the previous year.

Professional and technical services expense of $1,437,000 represents numerous technical and economic surveys and studies undertaken or continued during the year, details of which are included in the Board's annual report. The largest amount expended during the year was $847,000 for studies of the demand for and supply of water resources in the four Atlantic provinces.

315. *The Canada Council.* The Council was established by the Canada Council Act, *1957, c.3,* to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences.

A report on the audit of the Council's accounts for the year ended March 31, 1968 was made to the Council and to the Secretary of State, as required by the Act.

The financial statements of the Council are not reproduced in the Public Accounts along with the statements of Crown corporations and government operating activities. If financial information additional to the following is required, reference should be made to the annual report of the Council.

An Endowment Fund of $50 million was established under the Act. The return on the investments of the Fund is used to meet administrative expenses and other expenditure for purposes of the Act (except for capital assistance grants to universities which are made from the University Capital Grants Fund). Permissible expenditures under section 8 of the Act include, in respect of the arts, humanities and social sciences: grants, scholarships and awards; sponsorship of exhibitions, performances and publications; exchanges with other countries and organizations or persons therein of knowledge and information; representation and interpretation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

During the year the Council received from Canada an unconditional grant of $16,900,000 for the general purposes set out in section 8 of the Act. This amount is accounted for within the Endowment Account in accordance with a decision of the Council.

The operations of the Account for the year, together with comparable figures for the preceding year, are summarized as follows:

	Year ended March 31	
	1968	1967
Surplus at beginning of year	$ —	$ —
Income—		
Unconditional grant from Government of Canada	16,900,000	6,945,000
Interest and dividends earned	3,914,000	3,627,000
Cancelled grants and refunds	308,000	219,000
	21,122,000	10,791,000
Expenditure—		
Grants	18,450,000	9,934,000
Canadian National Commission for UNESCO	198,000	167,000
Administration expenses, less expenses recovered	1,124,000	690,000
	19,772,000	10,791,000
Surplus at end of year	$ 1,350,000	$ —

A University Capital Grants Fund of $50 million was established by the Act in order that grants could be made to universities and similar institutions of higher learning by way of capital assistance for building construction projects intended for use in furthering the arts, humanities and social sciences. These grants are paid out of the principal and accumulated income of the Fund.

The following is a summary of the University Capital Grants Fund transactions for the year, together with comparable figures for the preceding year:

	Year ended March 31	
	1968	1967
Balance at beginning of year	$ 1,217,000	$ 9,348,000
Add:		
Interest earned on investments	402,000	557,000
Net profit on disposal of securities	5,000	26,000
	1,624,000	9,931,000
Deduct:		
Authorized grants	1,624,000	8,714,000
Balance at end of year	$ —	$ 1,217,000

During the year the Council allocated to qualifying institutions the amount of $1,124,000 which represented the accumulated interest and profits earned by the University Capital Grants Fund from January 1, 1966 to March 31, 1968. This amount, together with previous years' allocations of principal, $50,000,000, and accumulated interest and profits earned by the Fund since its inception to December 31, 1965 amounting to $17,009,000, brought the total amount allocated to $68,133,000 at March 31, 1968.

By March 31, 1967 grants authorized from such allocations amounted to $66,509,000 of which $16,534,000 related to accumulated interest and profits. Further grants of $1,624,000, including $1,599,000 relating to accumulated interest and profits, were authorized during the year bringing the total amount authorized as grants to $68,133,000 at March 31, 1968. Of this amount the Council has paid out $62,163,000, leaving an unpaid balance of $5,970,000 at the year-end.

In our 1967 Report (paragraph 270) reference was again made to the method employed in the allocation of the interest and profits, to the qualification of our reports to the Council and the Secretary of State, and to the Sixth Report 1964-65 of the Public Accounts Committee wherein it was recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund. As no action had been taken, the Public Accounts Committee in its Third Report 1966-67 reiterated its previous recommendation and requested the Council to formally ask the Government to give consideration to the required amending legislation with the objective of having it considered by Parliament prior to the final closing out of the University Capital Grants Fund (see Appendix 1, item 21).

In August 1967 we were informed by the Acting Under Secretary of State that amending legislation to implement the recommendation of the Public Accounts Committee was being prepared by the Department of Justice. In September 1968 we were

informed by the Minister of Justice that detailed drafting instructions had not been received by his Department from the Department of the Secretary of State in time for amending legislation to be ready for the 1967-68 session of Parliament; that since the end of that session it had been necessary to revise the priorities given to the drafting of legislation by the Department of Justice in order to make provision for the most urgent and essential items to be dealt with during the current session. Consequently, while the amendment to the Canada Council Act continued to have a place on the list of desirable legislation for the present session, it had been necessary to give precedence to legislation already announced.

The Council may, under section 20 of the Act, acquire money, securities or other property by gift, bequest, or otherwise, and may expend, administer or dispose of them subject to the terms, if any, upon which they are made available to the Council. Moneys or property received by the Council pursuant to this section are presented in a separate balance sheet designated "Special Funds" (except for the previously referred to parliamentary grant). The balance sheet includes, in addition to comparatively small gifts which are accounted for within the Endowment Fund, the following funds, established in prior years, from which only the income may be disbursed for the purposes designated:

The Izaak Walton Killam Memorial Fund for Advanced Studies	$ 7,636,000
Special Scholarship Fund	1,878,000
Molson Prize Fund	626,000

In addition, the Council is in receipt of the net income from the residue of the estate of the late John B. C. Watkins, a total of $4,242 having been received during the year. This income is to be used "for the establishment of scholarships to be awarded to graduates of any Canadian University who may apply therefor for the purpose of engaging in post graduate studies in Denmark, Norway, Sweden or Iceland and who shall be selected for their outstanding worth or promise by a committee appointed by the Canada Council".

During the year a bequest of what may amount to $31,500 was made by the late J. B. Barwick. The payment of the bequest is to be postponed during the lifetime of the surviving beneficiary of the residue of the estate. The bequest to the Council is "on condition that such bequest shall be applied for the benefit of the musical division of the arts and for the encouragement of the musical arts to increase the Council's normal budget in the musical division or field of the arts".

During the year no grants were made from the Killam Memorial Fund. Income earned by the Fund amounted to $387,000 while meeting and other administrative expenses amounting to $7,000 were incurred.

For investment purposes the Special Scholarship Fund and the Molson Prize Fund have been combined and are represented by one portfolio. The income of $140,000 produced by the investments was apportioned between the two funds on a quarterly

basis according to the ratio of the principal and surplus of each fund at the beginning of the quarter to the total principal and surplus of the funds. A summary for the year follows:

	Special Scholarship Fund	Molson Prize Fund	Total
Surplus at April 1, 1967	$ 146,000	$ 28,000	$ 174,000
Income—Interest and dividends	104,000	36,000	140,000
	250,000	64,000	314,000
Expenditure—			
Grants authorized	10,000	45,000	55,000
Indirect administrative charge	—	2,000	2,000
	10,000	47,000	57,000
Surplus at March 31, 1968	$ 240,000	$ 17,000	$ 257,000

316. *The Custodian.* In accordance with Regulation 6 of the Revised Regulations Respecting Trading with the Enemy (1943) as set out in the schedule to the Trading with the Enemy (Transitional Powers) Act, *1947, c.24,* the Custodian is appointed "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him". Pursuant to the provisions of the Department of Consumer and Corporate Affairs Act, *1967-68, c.16,* the Minister of Consumer and Corporate Affairs was designated to succeed the Registrar General of Canada as Custodian of Enemy Property. The Deputy Minister of Consumer and Corporate Affairs is the Deputy Custodian. The Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. A report on the audit of the Custodian's accounts for the year ended December 31, 1967 was made to the Minister of Consumer and Corporate Affairs.

The assets under the administrative control of the Custodian, which were valued in accordance with bases explained in an addendum to his statement of assets and liabilities (Public Accounts, Volume II, page 8.12), decreased by $194,000 to $2,698,000 at December 31, 1967. A transfer of $550,000 to the Minister of Finance for the War Claims Fund and releases of assets valued at $339,000 to former owners or their beneficiaries or other rightful claimants, offset in part by an excess of $537,000 in the proceeds from liquidation and redemption of securities over their book value and an appreciation of $178,000 in the value of remaining vested assets, accounted for the greater part of the decrease.

Under the Regulations, the Custodian may charge against all property investigated, controlled or administered by him, whether it has been vested in him or not, a fee for services rendered not exceeding 2% of the value of the property including the income therefrom. He is also permitted to employ such part of the property vested in

him or the proceeds therefrom as may be necessary to pay the expenses incurred in the administration of the Regulations.

In addition to the income from fees, any income received from vested assets which consist of, or are converted into, cash or Canada bonds is credited to the Custodian's Office Administration Account, from which expenses of the Office are paid. We have drawn attention to this procedure in past years because it is not consistent with the treatment of income arising from other assets vested in the Custodian. In February 1967 we were informed by the Deputy Custodian that, on the basis of his interpretation of an opinion given by the Department of Justice in 1947 and discussions with officers of that Department, he was satisfied that the Custodian was acting within his legal rights in retaining the income from the bank deposits and Canada bonds included among the vested assets. It is our opinion, however, that the Custodian is empowered to retain the income from any asset vested in him only to the extent that it is required to meet expenses incurred with respect to that particular estate plus a percentage of general expenses.

There was an excess of income over expense in the Custodian's Office Administration Account in 1967 of $41,000 which was added to the surplus account, leaving that account with a balance of $792,000 at the year-end. A summary of income and expense for the past two years follows:

	Year ended December 31	
	1967	1966
Income—		
Fees on assets released from administration	$ 13,000	$ 2,000
Income from investments	92,000	193,000
Interest on bank deposits	6,000	6,000
Other	1,000	—
	112,000	201,000
Expense—		
Salaries	61,000	61,000
Office rent	8,000	9,000
Other	2,000	2,000
	71,000	72,000
Excess of income over expense	$ 41,000	$ 129,000

An increase of $450,000 in the amount transferred to the War Claims Fund and an increase in the value of assets released in 1967, as compared with 1966, accounted for the increase in income from fees on assets released from administration. The reduction in income from investments resulted from lower bond holdings following the transfer of bonds valued at $4,215,000 from the Office Administration Account to the Minister of Finance for redemption and credit to non-tax revenue in 1966-67.

317. *Economic Council of Canada.* The Council, established by the Economic Council of Canada Act, *1963, c.11,* to advise how Canada can achieve the highest possible levels of employment and efficient production, comprises a chairman, two directors and twenty-five other members appointed by the Governor in Council.

Pursuant to section 20 of the Act, we have examined the accounts and financial transactions of the Council for the year ended March 31, 1968 and have reported thereon, under date of June 26, 1968, to the Council and to the Prime Minister.

The following is a summary of the expense of the Council for the past two years:

	Year ended March 31	
	1968	1967
Salaries	$ 1,133,000	$ 1,088,000
Professional and special services	194,000	195,000
Employee benefits	117,000	60,000
Accommodation	85,000	80,000
Stationery, supplies and telephone	61,000	58,000
Travel	51,000	51,000
Publication of reports and studies	31,000	25,000
Miscellaneous	30,000	31,000
Total expense	$ 1,702,000	$ 1,588,000
Total expense provided for by—		
Privy Council Vote 20	$ 1,487,000	$ 1,436,000
Government departments which provided major services without charge	215,000	152,000
	$ 1,702,000	$ 1,588,000

The expense for 1967-68 included $180,000, for studies begun in 1966 and on which $4,000 was expended in 1966-67, for a special reference from the Government concerning the responsibilities of the Department of the Registrar General of Canada relating to: interests of the consumer; combines, mergers, monopolies and restraint of trade; patents, trade marks, copyrights and registered industrial designs. No expense was incurred during the year in respect of the special study concerning the relationship of prices, costs and incomes to sustained economic growth on which $105,000 was expended in the preceding year.

318. *Exchange Fund Account.* This Account, established in 1935 "to aid in the control and protection of the external value of the Canadian monetary unit", now operates under Part III of the Currency, Mint and Exchange Fund Act, *R.S., c.315.*

As required by section 27 of the Act, we have audited the Exchange Fund Account and the transactions in connection therewith for the year ended December 31, 1967 and have reported thereon to the Minister of Finance. This section requires a certificate to be given annually to Parliament and I now certify that, in my opinion, the transactions in connection with the Account have been in accordance with the provisions of the Act and that the records of the Account show truly and clearly the state of the Account.

The advances to the Exchange Fund Account from the Consolidated Revenue Fund at December 31, 1967 and at the end of the preceding year amounted to $2,332,000,000 and $2,185,000,000 respectively, and were represented by the following:

	December 31	
	1967	1966
Canadian dollars	$ 605,000	$ 807,000
Deposit with Bank for International Settlements and accrued interest	16,313,000	—
United States dollars and securities	1,264,787,000	1,090,581,000
International Monetary Fund note	37,932,000	54,188,000
Gold	1,097,160,000	1,130,330,000
Suspense account	121,000	14,000
	2,416,918,000	2,275,920,000
Deduct:		
Due to the Consolidated Revenue Fund, in accordance with section 24 of the Currency, Mint and Exchange Fund Act:		
Earnings for the year on investments	52,300,000	58,336,000
Net profit for the year from trading operations in foreign exchange, gold and securities and from net valuation adjustments on unmatched purchases or sales	2,336,000	—
	54,636,000	58,336,000
Surplus	30,282,000	32,584,000
	84,918,000	90,920,000
Advances from Consolidated Revenue Fund	$ 2,332,000,000	$ 2,185,000,000

The United States dollar holdings were valued at $1.08108 (par of exchange) at December 31, 1967 and as a consequence the valuation of the holdings at that date was $1,017,000 greater than if the closing market rate of $1.080625 had been used.

Department of Finance Vote 23a, Appropriation Act No. 9, 1966, *1966-67, c.55*, provided the following authority which has been incorporated into section 24 of the Currency, Mint and Exchange Fund Act:

> To authorize, notwithstanding the Currency, Mint and Exchange Fund Act, the transfer from the Exchange Fund Account to the Consolidated Revenue Fund of the profit for the calendar year 1964 and each subsequent calendar year from trading operations in foreign exchange, gold and securities, and from the net valuation adjustments on unmatched purchases or sales during each such year.

Under this authority $2,302,000 was transferred to the Consolidated Revenue Fund, as revenue, on March 29, 1967, representing net profits of $1,449,000 and $1,406,000 for 1964 and 1965 respectively, less a net loss of $553,000 incurred in 1966.

This legislation includes no direction with respect to the treatment of a net loss incurred in any calendar year. Consequently, the transfer to the Consolidated Revenue Fund should have been in the amount of $2,855,000 representing the profits for the two

years 1964 and 1965. This was rectified by the transfer of $553,000 to the Consolidated Revenue Fund in 1968 together with the profit for 1967 of $2,336,000. However, no provision has been made for absorbing the 1966 loss of $553,000. (See paragraph 93 of this Report.)

319. *Government of the Northwest Territories.* The Northwest Territories Act, *R.S., c.331,* provides for the appointment by the Governor in Council of a chief executive officer for the Territories, to be known as the Commissioner, and for a Council of the Territories consisting of twelve members, of whom seven are elected and five are appointed by the Governor in Council. The Commissioner in Council is empowered by the Act to make ordinances for the government of the Territories in fields paralleling those normally within provincial jurisdiction.

Prior to an amendment, *1966-67, c. 22,* the Act provided for the crediting of all territorial revenues to the Northwest Territories Revenue Account within the Consolidated Revenue Fund of Canada. The Account was also credited with all moneys appropriated by Parliament for its credit and charged with amounts paid under appropriation ordinances.

The Act now provides that all public moneys and revenue over which the Commissioner in Council has the power of appropriation shall form a fund to be known as the Northwest Territories Consolidated Revenue Fund. Provision is also made for the establishment of bank accounts in the name of the Territorial Government. With effect from April 1, 1967 the Territorial accounts are no longer included within the accounts of Canada, and an accounting unit was created within the public service of the Territories. Initially based at Ottawa, this unit was transferred to Yellowknife, the Territorial capital, in September 1967.

Section 19c of the Act now requires the accounts and financial transactions of the Territories to be examined by the Auditor General and reported upon annually by him to the Council. The section also requires that the financial statements presented to the Council by the Commissioner be certified by the Auditor General.

Our responsibility in this respect commenced with the accounts for the fiscal year 1967-68. However, our examination of the books of account in Yellowknife revealed such serious errors and inadequacies in the recording of expenditures and revenues that no reliable financial statements could be prepared therefrom for the year. As a consequence we have advised the Commissioner that we are unable to certify the financial statements of the Territories for this initial year.

The Commissioner has since advised us that he has taken steps to remedy these deficiencies and improve the expenditure and revenue procedures in the 1968-69 fiscal year. A subsequent review by my officers indicates that the new procedures have in fact been introduced.

320. *Government of the Yukon Territory.* The Yukon Act, *1952-53, c.53,* provides for the appointment by the Governor in Council of a chief executive officer for the Territory to be known as the Commissioner and for the election of a Council com-

posed of seven members. The Commissioner in Council is empowered by the Act to make ordinances for the governing of the Territory in fields normally within provincial jurisdiction.

The accounts and financial transactions of the Territory are subject to examination by the Auditor General of Canada in accordance with section 26 of the Act. He is required to report annually to the Council the result of his examination in a specified manner which includes certification of the financial statements which the Act requires be included in an annual report, called the Territorial Accounts, laid before the Council by the Commissioner.

The following is a summary of expenditure and revenue of the Government of the Yukon Territory for the year ended March 31, 1968, with comparable amounts for the preceding year:

	Year ended March 31	
	1968	1967
Expenditure—		
Capital projects	$ 3,245,000	$ 3,001,000
Education and occupational training	3,278,000	2,914,000
Engineering and municipal affairs	2,615,000	2,410,000
Yukon Hospital Insurance Service	670,000	671,000
Welfare	630,000	599,000
Interest on loans from Federal Government	456,000	409,000
Department of Corrections	417,000	72,000
Health	308,000	314,000
Other	1,480,000	1,167,000
	13,099,000	11,557,000
Revenue—		
Federal grants:		
Operating	3,096,000	1,824,000
Loan amortization	780,000	687,000
	3,876,000	*2,511,000*
Taxes	1,247,000	1,052,000
Liquor profits	1,130,000	1,018,000
Licences	349,000	301,000
Other	231,000	188,000
	2,957,000	*2,559,000*
Expenditure recoveries:		
Capital projects	1,174,000	1,468,000
Engineering and municipal affairs	1,604,000	1,483,000
Yukon Hospital Insurance Service	397,000	439,000
Education and occupational training	281,000	927,000
Welfare	276,000	237,000
Other	568,000	294,000
	4,300,000	*4,848,000*
	11,133,000	9,918,000
Excess of expenditure over revenue	$ 1,966,000	$ 1,639,000

321. *Municipal Development and Loan Board.* This Board was established by the Municipal Development and Loan Act, *1963, c.13,* to promote increased employment in Canada by augmenting or accelerating municipal capital works programs through loans to municipalities. Funds were allotted to the provinces in proportion to the populations as determined by the 1961 census.

Pursuant to section 19 of the Act, we have examined the accounts and have reported thereon to the Board and to the Minister of Finance.

The termination date for loan applications was March 31, 1966. A total of 2,433 loans amounting to $396,573,000 was approved for 1,262 municipalities.

Approximately 35% of this assistance has been used for water and sewer projects, 46% for schools, roads, bridges and rapid transit systems and 19% for civic administration, buildings, park developments, recreation facilities, etc.

The Act requires the Board to forgive 25% of the principal of a loan where the project was completed to the satisfaction of the Board prior to September 30, 1966 and, where the project was not completed on or before September 30, 1966, to forgive 25% of that portion of the principal of a loan that was made with respect to the cost, as determined by the Board, incurred on a project up to September 30, 1966.

Of the loans approved by the Board, $385,444,000 had been disbursed to March 31, 1968, of which $94,494,000 had been forgiven and $10,354,000 repaid by that date. Outstanding loan commitments at March 31, 1968 amounted to $11,129,000.

The loans, which bear interest at from $5\frac{1}{4}\%$ to $5\frac{5}{8}\%$, are to be repaid to the Department of Finance in annual or semi-annual instalments over terms not to exceed the useful life of the project up to a maximum of 50 years.

Expenses for the year amounted to $65,000, a decrease of $121,000 from the previous year, and were met to the extent of $38,000 by funds provided by Department of Finance Vote 45 and $27,000 by departments which provided accommodation, accounting and other services without charge.

322. *National Arts Centre Corporation.* The National Arts Centre Act, *1966-67, c.48,* established the National Arts Centre Corporation consisting of a Board of Trustees composed of a chairman, a vice-chairman, and nine other members appointed by the Governor in Council and the persons from time to time holding the five public offices named in the Act. The objects of the Corporation are to operate and maintain the National Arts Centre, to develop the performing arts in the National Capital region and to assist the Canada Council in the development of the performing arts elsewhere in Canada. Prior to the establishment of the Corporation, the Co-ordinator of the National Centre for the Performing Arts, who was appointed to that office by the Governor in Council in 1964 and is now the Director General of the Centre, was responsible for the planning and development of the National Arts Centre being constructed under the control and supervision of the Department of Public Works. The construction costs of the Centre to March 31, 1968 have amounted to $30.2 million, financed by parliamentary

appropriations of the Department of the Secretary of State. The Centre is expected to be completed in the summer of 1969 at an estimated cost of $46 million. (See paragraph 174 of this Report.)

At March 31, 1968 the proprietary equity was $476,000 comprising cash on deposit $445,000, furniture and equipment $69,000, accounts receivable $12,000, less accounts payable $50,000.

The Corporation did not have any financial transactions of its own until April 1, 1967. The results of the first year's operations to March 31, 1968 were as follows:

Expense—		
Salaries and employee benefits		$ 343,000
Advertising and promotion		98,000
Concerts and theatrical productions		84,000
Rent		63,000
Employees' travel		55,000
Consultants' services and expenses		46,000
Office expenses		32,000
Telephone and telegraph		30,000
Trustees fees and expenses		25,000
Miscellaneous		32,000
		808,000
Less:		
Portion recovered from the Centennial Commission in respect of Festival Canada		175,000
		633,000
Income—		
Concerts and theatrical productions	$ 35,000	
Other	10,000	
		45,000
Net cost of operations		$ 588,000

Operations for the year were mainly confined to organization, planning and preparations for the scheduled opening of the National Arts Centre in 1969 and to providing professional services to the Centennial Commission with respect to the Commission's Festival Canada Program.

323. *National Gallery of Canada.* This body was incorporated under the National Gallery Act, *R.S., c.186,* for the development, maintenance, care and management of the National Gallery, the acquisition of works of art and generally the promotion of public interest in art in Canada. With effect from April 1, 1968 the National Gallery of Canada became a part of the National Museums of Canada, established under the National Museums Act, *1967-68, c.21,* and is now administered by the Board of Trustees established by that Act.

Pursuant to section 9 of the National Gallery Act, we have audited the accounts of the Gallery for the year ended March 31, 1968 and have reported thereon to the Secretary of State.

The following is a summary of expenditure for the past two years:

	Year ended March 31	
	1968	1967
Administration and general services	$ 879,000	$ 702,000
Exhibitions	612,000	485,000
Development and care of collections	456,000	318,000
Educational and extension services	281,000	208,000
Research laboratory	135,000	101,000
Grants	30,000	8,000
	2,393,000	1,822,000
Works of art	788,000	520,000
Equipment	64,000	55,000
Total expenditure	$ 3,245,000	$ 2,397,000
Total expenditure provided for by—		
National Gallery of Canada Vote 1	$ 2,603,000	$ 1,872,000
National Gallery Special Operating Account	35,000	20,000
Government departments which provided major services without charge	607,000	505,000
	$ 3,245,000	$ 2,397,000

The operating expenses of the Gallery have been met largely from parliamentary appropriations, although in some years amounts have also been paid from the National Gallery Special Operating Account in which the proceeds of gifts, legacies, bequests, and other revenues were accumulated. Funds for the acquisition of works of art were provided through the National Gallery Purchase Account to which were credited moneys appropriated by Parliament for that purpose. Funds from the Special Operating Account were also used to acquire works of art and $35,000 was expended from it for this purpose in 1967-68. The balances to the credit of the National Gallery Purchase Account and the National Gallery Special Operating Account were transferred to the National Museums Purchase Account and the National Museums Special Account, respectively, on April 1, 1968.

324. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* The Queen Elizabeth II Canadian Research Fund Act, *1959, c.33,* established this Fund to assist individuals or organizations to undertake or carry on research into the diseases of children and the causes, prevention and treatment of such diseases. A Board of Trustees consisting of a chairman and six members is responsible for the management and administration of the Fund. As required by the Act, the National Research Council of Canada provides, without charge, such secretarial and other administrative and technical services and facilities as may be required by the Board, whose headquarters are in Ottawa. A report on the audit of the Fund's accounts for the year ended March 31, 1968 was made to the Board and to the Prime Minister as required by the Act.

The Act provided $1 million for the Fund and permits the Board to accept gifts for its purposes. The following is a summary of the Fund's transactions for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1968	1967
Balance at beginning of year	$ 1,008,000	$ 1,057,000
Earnings on investments	46,000	53,000
	1,054,000	1,110,000
Awards approved during year	48,000	102,000
Less: Cancellation of awards approved in prior year	27,000	—
	21,000	102,000
Balance at end of year	$ 1,033,000	$ 1,008,000

Two categories of awards have been established by the Board of Trustees, namely "Queen Elizabeth II Fellowships" and "Queen Elizabeth II Scientists". Awards in the first category are made to doctors of medicine or "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of children. The value of a fellowship ranges from $4,100 to $8,000 per annum, depending on qualifications, plus a travel grant and children's allowances where applicable. One renewal and five new fellowships totalling $44,400 were awarded during the year. Four awards involving $27,000 made in the preceding year were cancelled when declined.

The second category covers the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the Board of Trustees with regard to these appointments provide for payments of $10,000 or more per annum, depending upon qualifications, for the first three years and $5,000 per annum for the next following three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without further recourse to the Fund. No appointment was made during the year. The Fund continues to support three appointees of prior years and the outstanding liability of $75,000 in this connection was included in the total provision of $122,000 for awards approved, appearing in the balance sheet of the Fund at March 31, 1968.

325. *Roosevelt Campobello International Park Commission.* The Commission was established by an agreement between Canada and the United States signed on January 22, 1964 to administer the Roosevelt Campobello International Park, on Campobello Island, N.B., as a memorial to President Franklin Delano Roosevelt. Implementing legislation was enacted in Canada by the Roosevelt Campobello International Park Commission Act, *1964-65, c.19*. The Commission consists of six members, three appointed by the Government of Canada and three by the Government of the United States of America.

Proprietary equity at December 31, 1967 totalled $738,000, represented by: cash, $213,000; capital assets, $590,000; and prepaid insurance, $1,000; less accounts payable, $66,000.

All costs of maintenance and development of the Park are shared equally by the two countries. Operating expenditures totalled $100,000 for the Commission's year ended December 31, 1967 compared with $81,000 for the previous year. The major items of expenditure were: salaries, wages and employee benefits, $75,000; travel, $5,000; conferences, $5,000; Queen Mother's visit, $4,000; repairs and maintenance, $3,000; insurance, $2,000; and publications, $2,000.

Capital expenditures amounted to $149,000 of which $135,000 was for property improvements and $14,000 was for equipment.

326. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenue and expenditure accordingly form part of, and are examined with, departmental revenue and expenditure. However, section 20 of the Currency, Mint and Exchange Fund Act, *R.S., c.315,* requires that "the Auditor General shall, at least once in each year, inspect the store of bullion and coin at the Mint". We inspected these stores as at January 31, 1968 and reported thereon to the Deputy Minister of Finance. The stocks of bullion and metals at cost and coin at face value held by the Mint at that date amounted to $12,780,000 comprising: gold, $4,790,000; silver, $6,624,000; bronze, $485,000; nickel, $857,000; and other metals, $24,000.

* * * *

The past year has seen the retirement of Audit Director H. G. Crowley who commenced his retirement on August 23, 1968 after forty years service in the Office. Throughout his long service Mr. Crowley maintained excellent working relationships with the various departments and was held in high regard by all members of our staff. We wish him much happiness in his well-earned retirement.

I would like to record my appreciation to all members of the staff of the Office for their loyalty and devotion to duty during the year.

A. M. HENDERSON,
Auditor General of Canada.

December 20, 1968.

APPENDICES

APPENDIX 1

RECOMMENDATIONS AND OBSERVATIONS BY THE STANDING COMMITTEE ON PUBLIC ACCOUNTS NOT YET IMPLEMENTED OR DEALT WITH

Fourth Report 1963—presented to the House on December 19, 1963

1. SECOND CLASS MAIL. The Committee expressed its belief that early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second class mail and requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent committees may give consideration to it.

   In its Fourth Report 1966-67 the Committee stated that it feels that there is something wrong when no action has been taken with respect to, and apparently very little consideration given to, its recommendation on this matter. The Committee first drew the matter to the attention of the House in its Third Report 1958 and, while minor changes have been made, the annual loss has continued to increase and the Committee is of the opinion that sufficient consideration has not been given to the solution of this problem. It considers it essential that the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail without this being done at the expense of other classes of mail, keeping in mind, however, the need of assistance to small independently-owned newspapers circulating in rural areas. *See paragraph 162 of this Report.*

2. DEPARTMENTAL OPERATING ACTIVITIES. The Committee reiterated its belief that it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts, provided this can be done without undue cost or staff increases. The Committee requested the Auditor General to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course. *See paragraphs 58, 245 and 294 of this Report.*

3. INTERNAL FINANCIAL CONTROL. The Committee requested the Auditor General to continue his examinations into the important area of internal financial control and to report further to the House on steps taken or which should be taken to improve financial management in the various departments, Crown corporations and other instrumentalities.

4. UNEMPLOYMENT ASSISTANCE. The Committee shared the opinion of the Deputy Minister of National Welfare and the Auditor General that consideration should be given by Parliament to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have resulted in varying interpretations. It believed that consideration should also be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field.

   In its Fourteenth Report 1966-67 presented to the House on March 2, 1967 the Committee referred to discussions it had with the Deputy Minister of National Welfare

concerning the Canada Assistance Plan enacted by Parliament in 1966 which permits the Federal Government to enter into agreements with the provinces to make contributions to the cost of providing assistance and welfare services, pursuant to provincial law, to all persons in need. The Committee believes that the new plan should provide a better overall co-ordination of assistance programs, although recognizing that, until the regulations under the plan are established and agreements entered into with the provinces, it is not possible to fully assess the adequacy of the new comprehensive approach to social assistance in overcoming administrative weaknesses previously criticized. The Committee asked the Auditor General to follow up this matter and report further to the House thereon in due course. *See paragraph 141 of this Report.*

Fourth Report 1964-65—presented to the House on July 28, 1964

5. FINDINGS OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION. The Auditor General referred to the numerous and widespread findings made public in 1962 and 1963 by this Royal Commission as a result of its examination into the organization and methods of operation of departments and agencies of the Government. He reminded the Committee that where administrative action has caused or contributed to waste of public money, it is his duty to report such cases as he considers should be brought to the notice of the House. He pointed out that while some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations, as for example, through the medium of internal auditing.

By the same token, he considers it to be his duty to study reports prepared by or for the managements of departments and agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings could be made, the Auditor General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to inquire why. On the other hand, he does not conceive it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be the sole responsibility of management.

With regard to the findings of the Royal Commission on Government Organization, the Auditor General believes it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving efficiency but because of the substantial savings of public funds which could result. It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament.

6. THE FORM AND CONTENT OF THE ESTIMATES. In its Third Report 1963 tabled in the House on December 19, 1963 the Committee made four recommendations of which the following two have not yet been implemented:

(*a*) inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations; and

(b) inclusion of brief notes in the Estimates explaining proposed major increases in the size of staff establishments of all government departments and the Crown corporations and other public instrumentalities referred to under clause (a) above.

The Secretary of the Treasury Board explained to the Committee that he had not yet been able to discuss with any of the Crown corporations or public instrumentalities the practicability of including supporting financial information in the Estimates with respect to their operations. He undertook to do so and to advise the Auditor General for the information of the Committee.

The members of the Committee were glad to learn from the Secretary of the Treasury Board that he suppported the recommendations made under this heading by the Auditor General in his Reports to the House. The Committee believes that there is room for improvement in the Estimates presentation designed to provide more informative description and more complete disclosure of pertinent supporting detail—information which, in the opinion of the Committee, is essential if Parliament is to be in a position to give the Estimates the close study and consideration they deserve. *See paragraph 7 of this Report.*

7. GOVERNOR GENERAL'S SPECIAL WARRANTS. The Committee recommended that a study be made of Governor General's special warrants.

8. UNEMPLOYMENT INSURANCE FUND AND ITS ADMINISTRATION. The Committee stated its opinion that it is in the public interest that the Government's consideration of the report of the Committee of Inquiry (which was tabled on December 20, 1962) be completed as soon as possible, and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

The Committee also reiterated the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General.

After having a report from departmental officers, the Committee in its Fourteenth Report 1966-67, presented to the House on March 2, 1967, indicated its understanding that legislation was to be brought before the House covering the report of the Committee of Inquiry. *See paragraph 310 of this Report.*

9. OFFICE OF THE AUDITOR GENERAL. In the opinion of the Committee, it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants, with respect to the legal duties.

In its Third Report 1966-67 the Committee reiterated its opinion that as an officer of Parliament the Auditor General should have the right to recruit the professional and senior staff he needs in the same independent manner as do other officers of Parliament and added that the Auditor General's establishment should continue to be set in the same manner as government departments. *See paragraph 9 of this Report.*

Fifth Report 1964-65—presented to the House on August 5, 1964

10. CANADIAN BROADCASTING CORPORATION—REPORT OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION. The Committee recommended that the Secretary of State table an official memorandum in the House presenting the views of the Canadian Broadcasting Corporation and its replies to each of the matters dealt with by this Royal Commission in its Report 19 and that this be done before the estimates of the Corporation are considered by the House.

Sixth Report 1964-65—presented to the House on October 20, 1964

11. NATIONAL DEFENCE ADMINISTRATIVE REGULATIONS AND PRACTICES. The Committee expressed the hope that the changes which have been made or are in the process of being made in the Armed Forces administrative regulations will bring about the desired results. It requested the Auditor General to inform the House of any case where the changes appear to be inadequate or where abuse and waste of public funds develop. *See paragraphs 119 and 121 of this Report.*

12. UNAUTHORIZED USE OF CROWN-OWNED VEHICLES. The Committee recommended that the regulations be amended to provide for uniform penalties of sufficient magnitude, applicable to all personnel, to act as a real deterrent to the unauthorized use of Crown-owned vehicles.

13. FINANCIAL ASSISTANCE TO TOWN OF OROMOCTO, N.B. The Committee recommended to the Department of Finance that consideration be given to writing off to expense certain loans made to the Town. *See paragraph 239 of this Report.*

14. ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES. The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters. *See paragraph 124 of this Report.*

15. PENSION AWARDS EFFECTIVE AT AN EARLY AGE. The Committee noted that the Department of National Defence has been conducting a general review of the benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act and that this review is continuing. The Committee requested the Auditor General to keep it informed as to the progress being made in the introduction of deferred pension benefits for servicemen retiring at comparatively early ages.

In its Sixth Report 1966-67 the Committee noted that the departmental studies were almost complete but that it would take some time for the Department to examine them and arrive at conclusions. The Committee requested the Auditor General to keep Members of the House informed of the progress being made. *See paragraph 122 of this Report.*

16. DISCRETIONARY AWARDS OF SERVICE PENSIONS. The Committee noted that the Department of National Defence is making a study in an endeavour to achieve a system under which the entitlements to all pensions would be specific which, if this were possible, would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. The Committee requested the Auditor General to advise it in due course of any action taken to revise the present system.

In its Sixth Report 1966-67 the Committee, while noting that the study had been stopped pending completion of integration of the Armed Forces, again expressed the opinion that it is desirable that entitlement to all pensions be specific and requested the Auditor General to continue to keep the Members of the House informed of the progress being made by the Department toward revising the present system.

17. ERRORS IN PUBLIC SERVICE SUPERANNUATION ACCOUNT PENSION AND CONTRIBUTION CALCULATIONS. The Committee expressed concern that this matter (first drawn to the

attention of the Department of Finance by the Auditor General in 1959), which it regards as being very serious, is taking so long to be corrected. It requested the Auditor General to keep it fully informed.

In its Seventh Report 1966-67 the Committee noted that immediate steps were being taken to include in the internal auditing procedures of the Superannuation Branch an examination of the employee's contributions in relation to his salary and the documents on file. It requested the Auditor General to continue to keep it fully informed. *See paragraph 91 of this Report.*

18. INTEREST CHARGES ON LOANS TO THE NATIONAL CAPITAL COMMISSION. The Committee recorded how, in its Fourth Report 1963, it had expressed the view that since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

After hearing further evidence, the Committee stated it continues to hold the view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It pointed out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice. The Committee repeated its request that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

In its Seventh Report 1966-67 the Committee repeated its views on this matter and stated that it was glad to note the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General. *See also item 35 of this Appendix and paragraphs 88, 239 and 286 of this Report.*

19. ACCOUNTS RECEIVABLE. The Committee expressed concern that weaknesses exist in the internal control with respect to accounts receivable and suggested that the Treasury Board have the matter studied with a view to ensuring that amounts due to the Crown are adequately recorded, that an accounts receivable control system is instituted and that collection procedures are tightened up and firmly enforced. *See paragraph 240 of this Report.*

20. INDIRECT COMPENSATION TO CHARTERED BANKS. The Committee recalled that, in its Fourth Report 1963, it had advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act.

The Committee reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965.

In its Seventh Report 1966-67 the Committee noted that notwithstanding this recommendation, Bill C-222, An Act respecting Banks and Banking, given first reading

on July 7, 1966, includes a provision under subclause (2) of clause 93 designed to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest-bearing funds (currently an aggregate of $100 million) on deposit with them.

In the opinion of the Committee the proposed amendment does not meet the recommendation of the Committee and it requested the Department of Finance to provide to the Committee an explanation as to why it considers that an amount of $100 million should be left on deposit with the chartered banks free of interest, and why, if it considers that the chartered banks should be compensated for the service provided by them to the Government, it has not recommended that subsection (1) of section 93 of the Bank Act be amended to permit this, and also what other means of compensating the banks for services rendered were considered and the reasons why they are being discarded. *See paragraph 89 of this Report.*

21. THE CANADA COUNCIL. The Committee stated that, in its Fourth Report 1963, it had noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the "hotch-pot" or trust fund approach to this distribution. Because of doubts expressed by other legal counsel and the Auditor General as to the propriety of applying these bases, the Committee had postponed further consideration of the matter.

The Committee was informed that in the interim the Council had proceeded to allocate and distribute funds resulting from profits realized and interest earned on the foregoing bases. The Committee regarded the approach as a reasonable one, but because of the conflicting views held as to whether the action taken is *ultra vires* of subsection (2) (*b*) of section 17 of the Canada Council Act, recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund.

In its Third Report 1966-67 the Committee again reiterated its recommendation and requested the Canada Council to formally request the Government to give consideration to the required amending legislation with the object of having it considered by Parliament prior to the final closing out of the University Capital Grants Fund. *See paragraph 315 of this Report.*

Seventh Report 1964-65—presented to the House on December 7, 1964

22. SURPLUS ASSETS DISPOSAL. The Committee expressed deep concern that while physical inventory quantities are maintained and are readily available in respect of all the equipment and supply items maintained by the Department of National Defence, the purchase cost of the materials, including supplies and equipment stores at supply depots and at repair and overhaul contractors' establishments, is not available. In accordance with sound business practice, it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.

While the Committee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it. Furthermore, the lack of any cost or carrying values has rendered it difficult for the

Committee either to form any reasonable estimate of the value of the supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations approved for the Department of National Defence have aggregated an average of $1,646 million annually, of which $421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the Committee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The Committee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.

The Committee made four recommendations of which the following has not yet been implemented:

> that every effort be made by the Executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department.

Eighth Report 1964-65—presented to the House on December 7, 1964

23. AWARDS UNDER THE PENSION ACT. The Committee made the following recommendations designed to clarify the Act (*see paragraph 205 of this Report*):

(a) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";

(b) that the ambiguity under the Act whereby section 40 (2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;

(c) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;

(d) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;

(e) that, having regard for section 40 (1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45 (2) of the Act.

24. WAR VETERANS ALLOWANCES. The Committee made the following recommendations (*see paragraph 206 of this Report*):

(a) the Committee, after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases

had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;

(*b*) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

25. AMENDMENTS TO THE CUSTOMS ACT AND THE EXCISE TAX ACT. The Committee made four recommendations of which the following two have not yet been implemented (*see paragraphs 5 and 144 of this Report*):

(*a*) Sales of goods unclaimed at Customs—

that the practice of the Department in waiving all or part of whatever storage charges are applicable in order that at least the duties may be recovered be given statutory sanction by means of an appropriate amendment to section 23 of the Customs Act.

(*b*) Determination of 'sale price' for sales tax purposes—

that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

In reiterating these recommendations in its Fifth Report 1966-67 the Committee stated that it was disturbed that no attention had been paid to them. The Committee then made one additional recommendation:

(*c*) Refund of duty paid on goods diverted to use other than that for which they were imported—

that an amendment be made to the Customs Act to give statutory sanction to the practice of the Department of granting refunds of duty in cases where goods were entered under an item of the tariff, upon payment of duty at the rate applicable to such goods, and subsequently diverted to a use which would have entitled them to entry under a different tariff item had they then been imported.

26. GENERAL ELECTION EXPENDITURE. The Committee noted the practice followed over the years of making accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. It noted that the Chief Electoral Officer in his report to the Speaker of the House of Commons on the 1962 general election had recommended that the Canada Elections Act be amended to provide for the payment of an accountable advance to an election officer, limited to an amount which might be necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

The Committee recorded its support of this recommendation by the Chief Electoral Officer and expressed the hope that the amendment will be considered by Parliament at an early date.

27. ACCOUNTS NOT EXAMINED BY THE AUDITOR GENERAL. The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House. The Committee expressed its belief that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House.

The Committee therefore recommended:

(a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;

(b) that in cases where such other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the Government.

In its Third Report 1966-67 the Committee repeated this recommendation. *See also item 45 of this Appendix and paragraph 263 of this Report.*

28. AUDIT OF THE OFFICE OF THE AUDITOR GENERAL. The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommended that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons. In its Third Report 1966-67 the Committee reiterated this recommendation.

Third Report 1966-67—presented to the House on June 28, 1966

29. SALARY OF THE AUDITOR GENERAL. The Committee noted that whereas the salaries paid to the senior deputy ministers and others were substantially increased with effect from December 1, 1965, no proposal had been made to the House by the Government to adjust the salary of the Auditor General whose salary is fixed pursuant to section 65(2) of the Financial Administration Act.

In order to render the Auditor General independent of the Executive in this regard, the Committee recommended that section 65(2) of the Financial Administration Act be amended to provide that the Auditor General shall out of the Consolidated Revenue Fund be paid a salary not less than the highest amount being paid to a senior deputy minister in the public service of Canada.

30. SEPARATE ACT OF PARLIAMENT. The Committee is of the opinion that all of the characteristics, duties and functions of the Office of the Auditor General should be set out in a separate Act of Parliament governing this Office instead of being a part of the Financial Administration Act.

The Committee requested the Auditor General to consult his legal advisers and to co-operate with them in drafting such an Act for submission to the Committee and to the Government. *See paragraph 9 of this Report.*

31. STANDING COMMITTEE ON PUBLIC ACCOUNTS. The Committee has studied an arrangement in Australia whereby the Public Accounts Committee is appointed under an Act of Parliament instead of under terms of reference by the House of Commons as is the case in Canada.

The Committee believes that control of public expenditure of the size and complexity taking place in Canada today requires a Committee established by statute and recommended that legislation of this type be introduced in the House.

As this recommendation had not been adopted up to the time the Committee presented its Thirteenth Report 1966-67 to the House on March 1, 1967, the Committee recommended that as soon as possible after commencement of the second session of the twenty-seventh Parliament, the Standing Committee on Public Accounts be established as a Committee to remain in existence until dissolution of the twenty-seventh Parliament.

The Committee further recommended that the annual Public Accounts and the Report of the Auditor General be referred to the Public Accounts Committee at the time they are tabled in the House.

Fifth Report 1966-67—presented to the House on October 19, 1966

32. POSSIBLE LOSS OF REVENUE WHEN GOODS LOSE TAX-EXEMPT STATUS. The Committee noted the manner in which the Customs and Excise Division of the Department of National Revenue places on owners and importers the onus for reporting any duty or tax which might become payable on non-tax paid equipment or goods. The Department maintains no control on such goods and consequently it is possible for equipment or goods to lose tax-exempt status without this coming to the attention of the Department, in which case there would be a loss of revenue to the Crown.

The Committee urged the Department to strengthen its procedures wherever possible so as to minimize any possible loss of revenue to the Crown.

33. DRAWBACK PAID ON GOODS DESTROYED AFTER RELEASE FROM CUSTOMS. The Committee was concerned to note that it had been the practice of the Department of National Revenue (Customs and Excise Division) to recommend to the Governor in Council that duty drawbacks or remissions be made on goods "destroyed in Canada at the expense of the owner under Customs supervision" when section 22(6) of the Financial Administration Act, as amended, directs that: "No tax paid to Her Majesty on any goods shall be remitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed."

The Committee is of the opinion that the Department should adopt a stricter attitude towards requests for refunds and remissions based on circumstances which lie outside of normal business practice.

34. TAX EXEMPTIONS FOR PARTICULAR GROUPS. Parliament from time to time grants exemptions from sales tax and/or other taxes to institutions such as hospitals or schools and groups of consumers such as loggers, farmers, etc. In the course of discussions with departmental officers and the Auditor General, there were indications that in some cases the benefits of such tax exemptions are enjoyed by those whom Parliament had not intended to assist. The Committee is aware that special exemptions increase the complexities of administering the tax law but, nevertheless, it feels that the laws must be administered so as to ensure that exemptions granted by Parliament are applied only in the way Parliament intended.

The Committee urged the Customs and Excise Division of the Department of National Revenue in its administration of special exemptions always to see to it that the benefits from these exemptions go to, and only to, those for whom Parliament intended them.

Seventh Report 1966-67—presented to the House on October 26, 1966

35. LOANS AND ADVANCES REPRESENTING GRANTS TO CROWN CORPORATIONS. The Committee again criticized the practice of treating amounts paid to a Crown corporation, which did not have means to repay them, as loans and advances rather than expenditures of the Crown. The Committee was disturbed to learn that not only had the financing in this manner of the National Capital Commission not been reviewed by the Department of Finance as requested by it (see item 18) but the practice had been continued and further extended by the Department of Finance in 1965 when the House was asked to approve loans aggregating $14,250,000 to the Canadian Broadcasting Corporation to finance capital requirements which in the past were financed by grants charged to budgetary expenditure.

The Committee again expressed the opinion that expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada. The Committee noted the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General and expects the latter's report thereon in due course. *See paragraphs 88 and 239 of this Report.*

36. ADVANCES TO CANADIAN CORPORATION FOR THE 1967 WORLD EXHIBITION. The Committee took note of the circumstances under which the Government of Canada is purchasing securities issued by the Canadian Corporation for the 1967 World Exhibition and guaranteed by Canada and by Quebec. It noted that since the initial grants of $40 million of which $20 million was provided by Canada under the Canadian Corporation for the 1967 World Exhibition Act, were fully paid over to the Corporation in 1965 the Corporation's needs have been financed almost exclusively by issuance of these securities, all of which have been purchased by Canada.

The Committee recommended that amendments to the existing legislation be placed before Parliament and the Legislature of the Province of Quebec so that the additional grants required can be made by the parties concerned, namely Canada, Quebec and the City of Montreal. The Committee directed the attention of the House to the fact that unless these additional grants are provided, the Corporation's presently estimated total requirement of $143 million (less $40 million already provided by Canada, Quebec and Montreal) will have been financed by loans from Canada and the Corporation will be burdened with the cost of additional interest and at the conclusion of the Exhibition will not have the cash resources necessary for payment of its indebtedness to Canada. *See paragraphs 88, 239 and 270 of this Report.*

37. PRAIRIE FARM EMERGENCY FUND. The Committee believes it is important that the matters referred to by the Auditor General in paragraph 46 of his 1964 Report and paragraph 52 of his 1965 Report be rectified and recommended that appropriate legislation be introduced as soon as possible. It requested the Auditor General to keep the matter before the House and the Committee.

Eighth Report 1966-67—presented to the House on November 3, 1966

38. REPAIRS AND ALTERATIONS TO CANADIAN COAST GUARD SHIPS. The Auditor General, in paragraph 85 of his 1964 Report, drew attention to an instance where a ship repairer commenced operations under a contract involving a consideration of $43,346 but the work

actually performed under the contract amounted to $130,851 before the ship was returned to service.

The Committee appreciates the problem faced by the Department of Transport when ships for which certain repairs have been contracted for require additional repairs, the need for which is not evident until the ship is opened up.

The Committee also appreciates the danger pointed out by the Auditor General that a shipyard could deliberately bid too low for the repairs specified in order to get the ship into its yard, and then recoup any loss sustained by including excessive profits in charges for the carrying out of the additional work that is found to be required after the ship has been opened up. The Committee feels that everything possible should be done to assure the Canadian taxpayer that the tender system in the case of ship repairs is working to ensure that costs of these repairs are not excessive, and it discussed with departmental officers various ways in which this continuing problem might be overcome.

The Committee recommended that, in addition to all other methods which the Department might be able to employ in controlling the cost of extras, ship repair contracts be drawn up to provide that when extras are involved they shall be undertaken on a cost-plus or a modified cost-plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with a proviso that no loss be suffered on the extras and with the entire contract subject to cost audit by government auditors.

39. COST OF SALVAGING SUNKEN VESSEL. The Committee is of the opinion that costs of recovering a sunken vessel, the oil cargo of which was a threat to waterfowl, marine life and coastal property, should be the responsibility of the owner of the vessel and recommended that the Department of Transport take immediate steps to introduce the necessary legislation so that the Crown may be protected from such costs in future. *See paragraph 5 of this Report.*

40. COST OF ABANDONED DESIGN PLANS FOR FERRY VESSEL. The Committee discussed with officers of the Department of Transport and the Canadian National Railways the additional payment of $20,000 which had to be made to the architects who were preparing plans for a ferry vessel to operate between Newfoundland and the mainland.

In the opinion of the Committee this additional expenditure resulted because the Department and the C.N.R. had not come to an agreement as to whether the ferry vessel was to be a full icebreaker or simply an ice-strengthened ship, and emphatically stated that the Department should ensure in future that agreement is reached before architects are asked to proceed with the preparation of plans.

Although the Treasury Board had approved payment to the architects of the final amount of $130,000 for the preparation of these plans, the Board had not been advised that this represented an increase of $20,000 over the amount which the architects had originally agreed to accept for the assignment.

The Committee feels very strongly that the Treasury Board must be given all facts when it is being requested to approve of contracts, and it urged the Department to see that future submissions to the Board are complete in this respect.

The Committee, recognizing that the ferries operated by the Canadian National Railways on behalf of the Department of Transport are in effect rail links, recommended that consideration be given to the assuming by the Railways of responsibility for the procurement of ferry vessels as is done with respect to rolling stock requirements.

41. INADEQUATE CONTROL OF STORES AT NORTHERN LOCATIONS. Following consideration of the situation disclosed in paragraph 104 of the Auditor General's 1965 Report, the Com-

mittee stated that it regards this matter as being of the utmost importance and urged the Department of Indian Affairs and Northern Development to establish adequate controls on all stores in the North with the least possible delay. *See paragraph 103 of this Report.*

Tenth Report 1966-67—presented to the House on February 7, 1967

42. SALARIES AND WAGES PAID FOR WORK NOT PERFORMED. The Committee reviewed the practice of the Canadian Broadcasting Corporation in making payments to employees for scheduled hours during daily or weekly tours of duty in excess of actual hours of attendance, noting that such payments aggregate $450,000 per annum. The Committee considered that public funds should not be disbursed for work not performed and that managements of Crown corporations have a responsibility to ensure that the taxpayer's money is not used for non-productive work of this nature. The Committee recommended that such payments be eliminated by the management as and when the present union agreements come up for renewal. *See paragraph 64 of this Report.*

43. TRANSPORTATION ON LEAVE ALLOWANCE. The Committee recommended that the Department of National Defence take steps to bring its transportation allowance into line with current rail rates.

44. PROPOSED REMOVAL ALLOWANCE. The Committee recommended that the Department of National Defence give consideration to recommending the establishment of a cash allowance for members of the Armed Forces being transferred equivalent to 90% of the estimated costs of moving their furniture and that it advise the Chairman of the Committee and the Auditor General of its decision.

Eleventh Report 1966-67—presented to the House on February 7, 1967

45. CENTRAL MORTGAGE AND HOUSING CORPORATION—APPOINTMENT OF AUDITORS. The Committee strongly reiterated its previous recommendation that the Auditor General of Canada should be the auditor or a joint auditor of all Crown corporations, agencies and public instrumentalities owned or controlled by the Crown wherever they may be and that he report thereon to the House. The Committee therefore recommended that the Auditor General of Canada be appointed the auditor or joint auditor of Central Mortgage and Housing Corporation. *See also item 27 of this Appendix and paragraph 263 of this Report.*

46. CENTRAL MORTGAGE AND HOUSING CORPORATION—REPORTS OF THE AUDITORS. The Committee is of the opinion that it is entitled to be furnished with copies of all reports made by the external auditors of any Crown corporation and requested that the Minister responsible for Central Mortgage and Housing Corporation instruct the Corporation to make these available to the Committee for the fiscal years ended December 31, 1963 and December 31, 1964 and to do so without further delay.

47. CENTRAL MORTGAGE AND HOUSING CORPORATION—STATEMENT OF NET INCOME. The Committee believed that it would be more informative to Parliament if the figure shown on its Statement of Net Income and described as Administrative Salaries and Expenses were broken down by the Corporation in future into its major categories or areas of expense in accordance with generally accepted accounting practice and the practice followed by other Crown corporations on their financial statements.

Twelfth Report 1966-67—presented to the House on February 9, 1967

48. RECONSTITUTION OF FINANCIAL STRUCTURE OF THE NATIONAL HARBOURS BOARD. The Committee is concerned that there appears to be little prospect of the National Harbours Board being in a position to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter was to be dealt with by the Department of Finance and the Board within the next twelve months. *See paragraph 287 of this Report.*

Thirteenth Report 1966-67—presented to the House on March 1, 1967

49. MUNICIPAL WINTER WORKS INCENTIVE PROGRAM. The Committee discussed the practices set out in the 1965 Report of the Auditor General to the House with the Deputy Minister and officials of the Department of Manpower and Immigration and was informed that while a majority of these unsatisfactory practices continued in claims received during the fiscal year 1965-66, there had been a substantial improvement in the situation since April 1, 1966.

Members of the Committee expressed considerable concern at the type of questionable practices which had developed in the administration of the winter works incentive program and the Committee has requested the Auditor General to continue to watch the situation closely and advise the House thereon in due course. *See paragraph 112 of this Report.*

50. PARLIAMENTARY CONTROL OF EXPENDITURE. The Committee expressed the opinion that there is a weakening of parliamentary control when Parliament is unable to take the time to examine in detail the amounts being requested as interim supply particularly when these exceed the normal one-twelfth for each month for which interim supply is requested. It considers it unfortunate that the parliamentary rules do not provide for immediate consideration of the Estimates after they are presented to the House so that the proposed spending can be approved and interim supply would not be required so extensively. It feels that the rules could and should be changed in this regard in order not only to strengthen parliamentary control of public funds but to give the Executive the clear mandate it deserves in the discharge of its heavy responsibilities.

The Committee submitted the following recommendations designed to strengthen parliamentary control of public expenditures in the future:

1. (*a*) that the business of the House be so arranged that consideration of the annual main estimates by the various committees of the House and by the House itself be completed within three months of the tabling of these estimates; and

   (*b*) that when consideration of all or part of any year's main estimates has not been completed by the commencement of the fiscal year to which they relate, thus making interim supply a necessity, the first interim supply bill include provision for a period of one, two or three months up to a date three months from the end of the month in which the estimates were tabled.

2. that there be no change in the Treasury Board's procedure whereby it is the agency which determines the Government's overall cash requirements in stated areas, e.g. salary increases. However, once this determination is completed and the individual departmental needs established, the Committee believes that the additional amount required by each department should be made the subject of a supplementary estimate prepared by the department concerned for submission to Parliament for its consideration and appropriation in the usual manner. *See paragraph 64 of this Report.*

APPENDIX 2

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE BY DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES

Authorized and on Strength as at March 31, 1968 (with comparative figures as at March 31, 1967)

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1968	March 1967	Increase (Decrease)		March 1968	March 1967	Increase (Decrease)
			DEPARTMENTS (Note 1)—			
			Agriculture—			
657	598	59	Departmental Administration	629	539	90
4,000	4,011	(11)	Research Branch	3,798	3,669	129
2,253	2,293	(40)	Production and Marketing Branch	2,072	2,138	(66)
1,967	1,868	99	Health of Animals Branch	1,851	1,760	91
1,165	1,250	(85)	Prairie Farm Rehabilitation Administration	1,015	1,062	(47)
83	60	23	Prairie Farm Assistance Administration	77	55	22
889	889	—	Board of Grain Commissioners	853	862	(9)
187	288	(101)	Canadian Government Elevators	183	284	(101)
11,201	*11,257*	*(56)*		*10,478*	*10,369*	*109*
79	67	12	Atlantic Development Board	73	58	15
28	22	6	Atomic Energy Control Board	27	22	5
236	238	(2)	Auditor General's Office	219	202	17
123	69	54	Board of Broadcast Governors	100	53	47
22	29	(7)	Chief Electoral Officer	22	29	(7)
			Consumer and Corporate Affairs (formerly Registrar General)—			
87	78	9	Departmental Administration	86	66	20
106	69	37	Bankruptcy Act Administration	90	52	38
102	88	14	Combines Investigation Act Administration	89	78	11
36	32	4	Corporations Branch	43	32	11
419	387	32	Patent, Copyright and Industrial Designs Division	403	390	13
62	58	4	Trade Marks Office	59	51	8
8	8	—	Restrictive Trade Practices Commission	8	8	—
26	—	26	Consumer Affairs Branch	19	—	19
846	*720*	*126*		*797*	*677*	*120*
			Defence Production—			
145	159	(14)	Departmental Administration	139	150	(11)
410	468	(58)	Finance Branches	332	427	(95)
359	290	69	Operations Branches	272	230	42
1,406	1,302	104	Canadian Government Purchasing Service	1,178	1,122	56
1,232	1,150	82	Canadian Government Supply Service	1,089	1,102	(13)
			Canadian Government Printing Bureau—			
4	11	(7)	General Manager	4	4	—
77	70	7	Engineering Services	76	70	6
77	72	5	Financial Services	83	76	7
29	26	3	Industrial Relations Services	27	25	2
27	24	3	Research and Industrial Engineering	25	18	7
740	778	(38)	Printing Production (Main Plant)	692	693	(1)
596	555	41	Printing Production (Outside Plants)	589	555	34
			Canada Emergency Measures Organization—			
118	113	5	Emergency Measures	103	109	(6)
62	62	—	Emergency Measures College	49	53	(4)
5,282	*5,080*	*202*		*4,658*	*4,634*	*24*
3,411	2,899	512	Dominion Bureau of Statistics	3,197	2,695	502

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—*Continued*

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1968	March 1967	Increase (Decrease)		March 1968	March 1967	Increase (Decrease)
			DEPARTMENTS—*Continued*			
			Energy, Mines and Resources—			
435	414	21	Departmental Administration	348	386	(38)
954	844	110	Surveys and Mapping Branch	881	781	100
1,007	1,042	(35)	Marine Sciences Branch	752	947	(195)
571	484	87	Geological Survey	517	437	80
704	686	18	Mines Branch	673	647	26
—	119	(119)	Geographical Branch	—	105	(105)
233	202	31	Observatories Branch	219	192	27
61	70	(9)	Polar Continental Shelf Project	35	60	(25)
773	591	182	Inland Waters Branch	655	495	160
110	40	70	Resources Development Branch	122	20	102
17	17	—	Dominion Coal Board	16	15	1
144	131	13	National Energy Board	136	114	22
5,009	*4,640*	*369*		*4,354*	*4,199*	*155*
			External Affairs—			
3,351	3,008	343	External Affairs	3,112	2,839	273
496	313	183	External Aid Office	345	274	71
12	12	—	International Joint Commission	11	11	—
3,859	*3,333*	*526*		*3,468*	*3,124*	*344*
			Finance—			
345	278	67	Departmental Administration	291	245	46
			Comptroller of the Treasury—			
4	2	2	Comptroller's Office	4	2	2
23	16	7	Accounting Advisory Service	15	14	1
189	190	(1)	Accounting and Special Services	178	186	(8)
14	16	(2)	Authorities Advisory Service	13	12	1
126	103	23	Personnel and Administration	125	93	32
380	389	(9)	Audit Services	355	343	12
62	41	21	Planning and Development	50	38	12
			Operations—			
16	8	8	Headquarters	16	10	6
589	538	51	Central Services	556	516	40
1,705	1,717	(12)	Ottawa	1,627	1,598	29
2,283	2,058	225	Field	2,101	1,952	149
211	214	(3)	Superannuation	194	192	2
384	404	(20)	Royal Canadian Mint	361	340	21
43	43	—	Tariff Board	38	41	(3)
4	5	(1)	Municipal Development and Loan Board	4	5	(1)
26	25	1	Guaranteed Loans Division	22	24	(2)
4	4	—	Inspector General of Banks	3	4	(1)
6,408	*6,051*	*357*		*5,953*	*5,615*	*338*
			Fisheries—			
91	92	(1)	Departmental Administration	84	103	(19)
204	202	2	Field Services Administration	186	202	(16)
830	801	29	Conservation and Protection Service	725	806	(81)
389	303	86	Resource Development Service	372	320	52
372	344	28	Inspection Service	349	290	59
337	299	38	Miscellaneous Services	264	190	74
940	855	85	Fisheries Research Board of Canada	804	735	69
3,163	*2,896*	*267*		*2,784*	*2,646*	*138*
			Forestry and Rural Development—			
234	190	44	Departmental Administration	198	184	14
1,909	1,684	225	Forestry Branch	1,708	1,501	207
193	160	33	Rural Development Branch	178	126	52
2,336	*2,034*	*302*		*2,084*	*1,811*	*273*
83	63	20	Governor General and Lieutenant-Governors	64	58	6

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1968	March 1967	Increase (Decrease)		March 1968	March 1967	Increase (Decrease)
			DEPARTMENTS—*Continued*			
			Indian Affairs and Northern Development—			
314	269	45	Departmental Administration	265	235	30
			Indian Affairs—			
746	728	18	Administration	688	650	38
712	779	(67)	Development	623	699	(76)
2,410	2,261	149	Education	2,368	2,217	151
			Northern Program—			
743	187	556	Administration	712	168	544
644	589	55	Education	630	548	82
422	195	227	Regional Development	403	168	235
84	1,086	(1,002)	Territorial Governments	84	897	(813)
28	31	(3)	Northern Science Research	23	23	—
114	102	12	Resource and Economic Development	96	89	7
			Conservation—			
282	138	144	Administration	264	127	137
2,817	2,814	396	National Parks	1,588	1,594	314
393			Historic Sites	320		
197	143	54	Canadian Wildlife Service	167	137	30
9,906	*9,322*	*584*		*8,231*	*7,552*	*679*
			Industry—			
31	23	8	Executive Offices	27	22	5
313	92	221	Finance and Administration	250	66	184
54	51	3	Area Development Agency	48	33	15
155	131	24	Advisory Group	130	96	34
472	484	(12)	Operations	392	336	56
1,025	*781*	*244*		*847*	*553*	*294*
			The increase in employees authorized and on strength in the Finance and Administration Branch at March 31, 1968 results from the reorganization of the Department on separation from the Department of Defence Production effective July 1, 1967, with consequent loss of common services.			
135	121	14	Insurance	123	118	5
465	394	71	Justice	410	330	80
			Labour—			
267	261	6	Departmental Administration	234	215	19
89	83	6	Labour Relations	82	63	19
301	243	58	Labour Standards and Employee Benefit Plans	277	212	65
161	141	20	Research and Development	129	118	11
818	*728*	*90*		*722*	*608*	*114*
			Legislation—			
227	227	—	Senate	213	213	—
1,161	1,134	27	House of Commons	1,068	1,068	—
82	78	4	Library of Parliament	75	78	(3)
1,470	*1,439*	*31*		*1,356*	*1,359*	*(3)*
			Manpower and Immigration—			
620	472	148	Departmental Administration	565	441	124
2,298	2,021	277	Canada Immigration Division	2,107	1,813	294
6,771	5,284	1,487	Canada Manpower Division	6,195	5,039	1,156
308	291	17	Program Development Service	277	183	94
42	11	31	Immigration Appeal Board	25	9	16
10,039	*8,079*	*1,960*		*9,169*	*7,485*	*1,684*
			National Defence (Civilian Staff)—			
757	811	(54)	Departmental Administration	672	683	(11)
39,833	39,993	(160)	Defence Services	38,036	39,630	(1,594)
2,849	2,833	16	Defence Research Board	2,640	2,699	(59)
43,439	*43,637*	*(198)*		*41,348*	*43,012*	*(1,664)*

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—*Continued*

Employees authorized March 1968	March 1967	Increase (Decrease)	Name of Department, Crown Corporation or Other Instrumentality	Employees on strength March 1968	March 1967	Increase (Decrease)
			DEPARTMENTS—*Continued*			
1,162	1,108	54	National Film Board	1,074	1,045	29
105	87	18	National Gallery of Canada	100	76	24
			National Health and Welfare—			
548	490	58	Departmental Administration	454	440	14
867	819	48	Health Services Branch	753	763	(10)
107	72	35	Health Insurance and Resources Branch	75	55	20
3,660	3,367	293	Medical Services Branch	3,054	2,859	195
1,036	866	170	Food and Drug Branch	844	787	57
			Welfare Services—			
2,399	1,558	841	Income Security Branch	1,897	1,475	422
93	90	3	Welfare Assistance and Services Branch	65	69	(4)
73	54	19	Special Programs Branch	46	46	—
8,783	*7,316*	*1,467*		*7,188*	*6,494*	*694*
			National Research Council of Canada, including the Medical Research Council—			
1,488	1,438	50	Administration and Services	1,461	1,429	32
2,127	2,057	70	Scientific and Engineering Divisions	2,136	2,056	80
13	9	4	Medical Research Council	14	9	5
3,628	*3,504*	*124*		*3,611*	*3,494*	*117*
			National Revenue—			
			Customs and Excise Division—			
	934		General Administration		820	
	341		Checking, Refunds and Drawbacks		306	
	1,264		Excise Duty and Excise Tax		1,172	
	151		Customs Inspection and Investigation		142	
	5,515		Ports		5,379	
			Re-organized in 1967-68 as follows:			
798			Administration	619		
			Customs Operations—			
349			Administration—Operations	340		
2,178			Port Operations—Traffic	2,048		
3,498			Port Operations—Commercial	3,423		
112			Investigations and Enforcement	112		
358			Excise Duty	347		
2			Administration—Customs	2		
206			Dominion Customs Appraisers	189		
145			Drawbacks	70		
99			Checking and Refunds	71		
			Excise Tax—			
55			Administration	53		
205			Collections	190		
86			Values and Classification	78		
669			Excise Tax Audit	615		
8,760	8,205	555	Total—Customs and Excise Division	8,157	7,819	338
			Taxation Division—			
852	705	147	Head Office	675	607	68
2,832	2,698	134	Data Centre (Ottawa)	2,622	2,388	234
7,754	7,875	(121)	District Offices	7,383	7,350	33
22	22	—	Tax Appeal Board	22	22	—
11,460	11,300	160	Total—Taxation Division	10,702	10,367	335
20,220	*19,505*	*715*		*18,859*	*18,186*	*673*
			Post Office—			
1,197	1,104	93	Headquarters	1,128	1,037	91
1,176	1,097	79	District Offices	1,172	1,047	125
334	341	(7)	Railway Mail Service	319	330	(11)
33,389	30,330	3,059	Staff Post Offices	32,963	30,130	2,833
1,714	1,825	(111)	Casuals	1,714	1,825	(111)
37,810	*34,697*	*3,113*		*37,296*	*34,369*	*2,927*

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1968	March 1967	Increase (Decrease)		March 1968	March 1967	Increase (Decrease)
			DEPARTMENTS—*Continued*			
			Privy Council—			
211	184	27	Privy Council Office	209	163	46
7	7	—	Prime Minister's Residence	6	6	—
127	123	4	Economic Council of Canada	123	115	8
345	*314*	*31*		*338*	*284*	*54*
			Public Archives and National Library—			
			Public Archives—			
109	94	15	Administration and Technical Services	101	87	14
109	96	13	Historical Branch	103	96	7
52	53	(1)	Records Management Branch	51	51	—
			National Library—			
21	24	(3)	Administration	21	16	5
81	70	11	Cataloguing Division	78	67	11
106	98	8	Reference Division	105	91	14
478	*435*	*43*		*459*	*408*	*51*
			Public Printing and Stationery—			
46	44	2	Departmental Administration	44	40	4
226	197	29	Distribution of official documents including print procurement	197	188	9
272	*241*	*31*		*241*	*228*	*13*
			Public Service Commission—			
190	147	43	Departmental Administration	161	102	59
626			Staffing Branch	540		
398	899	173	Language Bureau	326	730	173
48			Bureau of Staff Development and Training	37		
74	96	(2)	Bureau of Management Consulting Services	65	62	22
20			Appeals	19		
—	138	(138)	Bureau of Classification Revision	—	126	(126)
1,356	*1,280*	*76*		*1,148*	*1,020*	*128*
			The Bureau of Classification Revision was transferred to the Treasury Board effective April 1, 1967.			
			Public Service Staff Relations Board—			
40	32	8	Administration	31	14	17
67	43	24	Pay Research Bureau	58	38	20
107	*75*	*32*		*89*	*52*	*37*
			Public Works—			
3,032	2,683	349	Departmental Administration	2,575	2,330	245
			Maintenance and Operation of Public Buildings and Grounds—			
2,061	2,286	(225)	Ottawa and Hull	1,910	1,986	(76)
3,846	3,960	(114)	Other than Ottawa and Hull	3,663	3,687	(24)
571	558	13	Harbours and Rivers Engineering Services	531	684	(153)
389	471	(82)	Roads, Bridges and Other Engineering Services	319	346	(27)
133	138	(5)	Testing Laboratories	133	146	(13)
10,032	*10,096*	*(64)*		*9,131*	*9,179*	*(48)*
			Secretary of State—			
115	92	23	Departmental Administration	113	75	38
94	74	20	Citizenship Branch	92	68	24
190	174	16	Citizenship Registration Branch	181	169	12
496	466	30	Bureau for Translations	462	420	42
254	201	53	National Museum	231	185	46
—	18	(18)	National Arts Centre	—	18	(18)
17	17	—	Office of the Representation Commissioner	12	12	—
1,166	*1,042*	*124*		*1,091*	*947*	*144*

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—*Continued*

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1968	March 1967	Increase (Decrease)		March 1968	March 1967	Increase (Decrease)
			DEPARTMENTS—*Continued*			
			Solicitor General—			
36	28	8	Departmental Administration	26	18	8
			Canadian Penitentiary Service—			
161	148	13	Headquarters	120	113	7
4,910	4,791	119	Institutions	4,530	4,262	268
234	190	44	National Parole Board	223	175	48
			Royal Canadian Mounted Police (Civilian Staff)—			
794	721	73	Headquarters	735	668	67
1,157	1,103	54	Land, Air and Training Divisions	1,102	1,060	42
12	12	—	Marine Services	10	11	(1)
7,304	*6,993*	*311*		*6,746*	*6,307*	*439*
			Trade and Commerce—			
844	726	118	Departmental Administration	759	639	120
841	807	34	Trade Commissioner Service	806	753	53
534	528	6	Standards Branch	518	492	26
319	285	34	Exhibitions Branch	292	256	36
374	487	(113)	Canadian Government Travel Bureau	350	474	(124)
—	80	(80)	Canadian Government Participation 1967 Exhibition	—	48	(48)
2,912	*2,913*	*(1)*		*2,725*	*2,662*	*63*
			Transport—			
870	790	80	Departmental Administration	688	633	55
			Marine Services—			
2,243	2,308	(65)	Marine Administration and Marine Works	2,229	2,258	(29)
2,595	2,406	189	Marine Operations	2,259	2,306	(47)
557	565	(8)	Marine Regulations	468	425	43
188	143	45	Marine Hydraulics	153	91	62
			Air Services—			
646	584	62	Administration	519	479	40
2,122	2,048	74	Control of Civil Aviation and Air Traffic Control	1,932	1,709	223
3,058	3,019	39	Airports and Field Operations	2,740	2,508	232
704	670	34	Construction, Engineering and Architecture Branch	690	686	4
2,820	2,844	(24)	Telecommunications and Electronics Branch	2,656	2,550	106
2,749	2,721	28	Meteorological Branch	2,301	2,353	(52)
646	638	8	Telecommunications Policy and Administration Bureau	529	516	13
			Canadian Transport Commission—			
37	—	37	Administration	29	—	29
121	116	5	Air Transport Committee (formerly Air Transport Board)	114	103	11
180	188	(8)	Railway Transport Committee (formerly Board of Transport Commissioners)	174	180	(6)
20	28	(8)	Water Transport Committee (formerly Canadian Maritime Commission)	21	26	(5)
6	—	6	Motor Vehicle Transport Committee	—	—	—
38	—	38	Research	—	—	—
19,600	*19,068*	*532*		*17,502*	*16,823*	*679*
			Treasury Board—			
423	256	167	Departmental Administration	371	188	183
82	64	18	Central Data Processing Service Bureau	80	46	34
505	*320*	*185*		*451*	*234*	*217*
			The increase in employees authorized and on strength in the Administration Branch at March 31, 1968 results mainly from the transfer from the Public Service Commission effective April 1, 1967 of the Bureau of Classification Revision involving 111 positions at that date.			
			Unemployment Insurance Commission—			
490	593	(103)	Head Office	402	439	(37)
727	801	(74)	Atlantic Region	673	723	(50)
1,793	1,981	(188)	Quebec Region	1,615	1,721	(106)
1,749	1,937	(188)	Ontario Region	1,617	1,688	(71)
801	834	(33)	Prairie Region	742	756	(14)
656	733	(77)	Pacific Region	584	624	(40)
6,216	*6,879*	*(663)*		*5,633*	*5,951*	*(318)*

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1968	March 1967	Increase (Decrease)		March 1968	March 1967	Increase (Decrease)
			DEPARTMENTS—*Concluded*			
			Veterans Affairs—			
674	752	(78)	Departmental Administration	622	650	(28)
9,954	10,871	(917)	Treatment Services	9,422	9,383	39
1,082	1,076	6	Welfare Services	1,046	1,013	33
360	360	—	Pensions Administration	331	334	(3)
662	656	6	Veterans' Land Act Administration	645	636	9
12,732	*13,715*	*(983)*		*12,066*	*12,016*	*50*
244,116	233,487	10,629	Total, Departments	226,232	216,984	9,248
			CROWN CORPORATIONS (Notes 1 and 2)—			
			Air Canada—			
			Operations Department—			
			Flying personnel	2,791	2,229	562
			Other personnel	8,323	7,486	837
			Sales Department	3,810	3,563	247
			Purchases and Stores Department	607	603	4
			Finance Department	686	646	40
			All other	362	379	(17)
16,579	*14,906*	*1,673*		*16,579*	*14,906*	*1,673*
			Atomic Energy of Canada Limited—			
86	71	15	Head Office	77	71	6
2,453	2,453	—	Chalk River Nuclear Laboratories	2,373	2,354	19
555	517	38	Commercial Products Division	555	517	38
776	610	166	Whiteshell Nuclear Research Establishment	682	563	119
814	674	140	Power Projects	814	674	140
164	122	42	Temporary—Construction workers, nurses, etc.	164	122	42
4,848	*4,447*	*401*		*4,665*	*4,301*	*364*
			Canadian Arsenals Limited—			
			Head Office	22	23	(1)
			Filling Division	384	399	(15)
			Small Arms Division	363	368	(5)
769	*790*	*(21)*		*769*	*790*	*(21)*
			Canadian Broadcasting Corporation—			
585	563	22	Head Office	548	517	31
5	454	(449)	Expo '67	5	274	(269)
349	385	(36)	National Engineering	326	355	(29)
8,130	8,105	25	Regional Offices	8,001	7,881	120
106	98	8	Northern and Armed Forces Services	102	95	7
205	202	3	International Service	200	197	3
9,380	*9,807*	*(427)*		*9,182*	*9,319*	*(137)*
			Canadian Corporation for the 1967 World Exhibition—			
			Administrative—			
7	17	(10)	Executive	7	17	(10)
51	63	(12)	Secretariat	51	59	(8)
81	190	(109)	Finance and Administration	81	177	(96)
40	327	(287)	Installations	40	280	(240)
—	85	(85)	Exhibitors	—	75	(75)
—	134	(134)	Public Relations	—	110	(110)
2	164	(162)	Operations	2	145	(143)
			Operating—			
—	4	(4)	Secretariat	—	4	(4)
198	474	(276)	Finance and Administration	198	321	(123)
12	912	(900)	Installations	12	327	(315)
2	3,193	(3,191)	Operations	2	1,837	(1,835)
—	907	(907)	La Ronde	—	285	(285)
—	59	(59)	Exhibitors	—	35	(35)
—	279	(279)	Public Relations	—	147	(147)
393	*6,808*	*(6,415)*		*393*	*3,819*	*(3,426)*
15	—	15	Canadian Dairy Commission	14	—	14
16	—	16	Canadian Livestock Feed Board	12	—	12

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1968	March 1967	Increase (Decrease)		March 1968	March 1967	Increase (Decrease)
			CROWN CORPORATIONS—*Continued*			
			Canadian National Railways—			
			General	10,923	11,687	(764)
			Road Maintenance	12,793	16,089	(3,296)
			Equipment Maintenance	17,903	19,383	(1,480)
			Transportation	35,434	36,372	(938)
			Other Operations	6,738	8,835	(2,097)
83,791	*92,366*	*(8,575)*		*83,791*	*92,366*	*(8,575)*
			Canadian Overseas Telecommunication Corporation—			
			Administration	126	123	3
			Head Office Engineering	76	66	10
			Traffic Representatives	11	12	(1)
			Operating	498	485	13
711	*686*	*25*		*711*	*686*	*25*
22	21	1	Canadian Patents and Development Limited	22	21	1
			Cape Breton Development Corporation—			
			Head Office	8	—	8
			Coal Division	6,274	—	6,274
6,282	—	*6,282*		*6,282*	—	*6,282*
			The Coal Division came into being on March 30, 1968, on expropriation from the Dominion Steel and Coal Corporation Limited of four coal mines on Cape Breton Island.			
—	475	(475)	Centennial Commission	—	461	(461)
			The Centennial Commission ceased to exist on April 1, 1968. The Secretary of State is responsible for the winding up of its affairs.			
			Central Mortgage and Housing Corporation—			
			Regular	2,121	2,080	41
			Contract and Casual	79	43	36
2,200	*2,123*	*77*		*2,200*	*2,123*	*77*
77	60	17	Company of Young Canadians	77	60	17
126	126	—	Crown Assets Disposal Corporation	119	113	6
			Defence Construction (1951) Limited—			
			Administration	89	87	2
			Engineering	37	37	—
			Technical	66	66	—
192	*190*	*2*		*192*	*190*	*2*
36	32	4	Eldorado Aviation Limited	36	32	4
			Eldorado Mining and Refining Limited—			
			Head Office and General Administration	33	33	—
			Beaverlodge Division	694	582	112
			Refining and Sales	169	156	13
			Research and Development	50	52	(2)
946	*823*	*123*		*946*	*823*	*123*
85	77	8	Export Credits Insurance Corporation	85	77	8
			Farm Credit Corporation—			
2	2	—	Executive Officers	2	2	—
17	16	1	Senior Management Officers	16	15	1
350	361	(11)	Technical	327	313	14
6	9	(3)	Professional	7	9	(2)
5	7	(2)	Specialist	5	5	—
281	290	(9)	Supervisory, Clerical and Stenographic	273	276	(3)
661	*685*	*(24)*		*630*	*620*	*10*

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Concluded

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1968	March 1967	Increase (Decrease)		March 1968	March 1967	Increase (Decrease)
			CROWN CORPORATIONS—*Concluded*			
21	21	—	The National Battlefields Commission	21	21	—
			National Capital Commission—			
56	45	11	Administration and Accounting	56	42	14
63	58	5	Planning and Design	59	43	16
112	101	11	Operations Branch	108	99	9
457	467	(10)	Prevailing rate (permanent and seasonal)	394	434	(40)
688	*671*	*17*		*617*	*618*	*(1)*
			National Harbours Board—			
			Head Office	82	73	9
			Harbours and Elevators—			
			Salaried	821	850	(29)
			Prevailing rate	1,061	1,387	(326)
1,964	*2,310*	*(346)*		*1,964*	*2,310*	*(346)*
			Northern Canada Power Commission—			
			Head Office and Edmonton Office	60	59	1
			Field Locations	237	227	10
297	*286*	*11*		*297*	*286*	*11*
66	56	10	Northern Transportation Company Limited	66	56	10
			Polymer Corporation Limited and subsidiary companies—			
1,670	1,696	(26)	Salaried	1,564	1,618	(54)
2,437	2,495	(58)	Hourly rate	2,326	2,386	(60)
4,107	*4,191*	*(84)*		*3,890*	*4,004*	*(114)*
			The St. Lawrence Seaway Authority—			
			Administrative and Engineering	506	477	29
			Operations	788	806	(18)
			Maintenance	414	441	(27)
1,708	*1,724*	*(16)*		*1,708*	*1,724*	*(16)*
18	17	1	The Seaway International Bridge Corporation, Ltd.	18	17	1
135,998	143,698	(7,700)	Total, Crown Corporations	135,286	139,743	(4,457)
			OTHER INSTRUMENTALITIES (Notes 1 and 2)—			
1,242	1,201	41	Bank of Canada	1,242	1,201	41
98	61	37	The Canada Council	95	61	34
548	557	(9)	The Canadian Wheat Board	548	557	(9)
7	7	—	The Custodian	7	7	—
631	623	8	Industrial Development Bank	631	623	8
34	—	34	National Arts Centre Corporation	34	—	34
2,560	2,449	111	Total, Other Instrumentalities	2,557	2,449	108
382,674	379,634	3,040	Total, Departments, Crown Corporations and Other Instrumentalities	364,075	359,176	4,899

NOTES:

(1) The figures appearing in this listing are based on information provided by the various departments, Crown corporations and other instrumentalities. They include the numbers of seasonal, part-time and casual employees actually on strength at March 31, 1968 and March 31, 1967 which for purposes of comparison have been included in the figures shown for "Employees authorized".

(2) Where no establishments have been authorized by the executive boards of certain Crown corporations or other instrumentalities, the totals of the actual strength figures have been shown in the "Employees authorized" columns for purposes of comparison.

APPENDIX 3

SUMMARY OF EXPENDITURE BY STANDARD OBJECTS FOR THE FISCAL YEAR ENDED MARCH 31, 1968

(with comparative figures for the preceding fiscal year)
(in millions of dollars)

—	1967–68	1966–67	Increase or decrease (−)
Civil salaries and wages	$ 1,311.1	$ 1,196.3	$ 114.8
Civilian allowances	25.4	23.3	2.1
Pay and allowances, Defence Forces and Royal Canadian Mounted Police	759.6	682.0	77.6
Professional and special services	157.8	140.2	17.6
Travelling and removal expenses	94.7	84.4	10.3
Freight, express and cartage	12.0	10.2	1.8
Postage	8.7	8.0	.7
Telephones, telegrams and other communication services	43.3	41.9	1.4
Publication of departmental reports and other material	18.3	16.6	1.7
Exhibits, advertising, films, broadcasting and displays	37.2	37.9	− .7
Office stationery, supplies, equipment and furnishings	50.5	41.2	9.3
Materials and supplies	204.1	189.7	14.4
Buildings and works, including land—			
Construction or acquisition	372.2	316.3	55.9
Repairs and upkeep	72.4	74.4	−2.0
Rentals	40.2	29.1	11.1
Equipment—			
Construction or acquisition	370.9	332.9	38.0
Repairs and upkeep	160.0	156.8	3.2
Rentals	10.6	8.6	2.0
Municipal or public utility services	86.8	81.2	5.6
Contributions, grants, subsidies, etc., not included elsewhere	1,575.1	1,378.2	196.9
Pensions, superannuation and other benefits	326.7	306.6	20.1
All other expenditure (other than special categories)	257.6	218.3	39.3
Interest on public debt, etc.	1,300.8	1,190.5	110.3
Subsidies and special payments to the provinces	737.5	515.5	222.0
Family allowances, youth allowances and family assistance payments	612.4	606.9	5.5
Old age assistance, blind persons and disabled persons allowances, unemployment assistance and Canada Assistance Plan	250.0	191.9	58.1
Veterans' disability pensions, etc.	205.6	195.9	9.7
Other payments to veterans and dependents	114.7	117.2	−2.5
Government's contribution to the Unemployment Insurance Fund	69.5	68.8	.7
Hospital insurance, health resources and general health grants	547.3	447.2	100.1
Trans-Canada Highway contributions	64.7	81.0	−16.3
Movement of mail by land, air and water	86.6	78.5	8.1
Deficits—government-owned enterprises	67.1	43.9	23.2
	10,051.4	8,911.4	1,140.0
Less: Expenditure recovered	180.0	131.7	48.3
Net total expenditure	$ 9,871.4	$ 8,779.7	$ 1,091.7

EXHIBITS

(as published in the Public Accounts)

THE GOVERNMENT

STATEMENT OF EXPENDITURE AND REVENUE FOR
(with comparative figures for

EXPENDITURE

	Fiscal year ended March 31, 1968	March 31, 1967
Agriculture	$ 277,066,204	$ 230,657,096
Atomic Energy	69,301,717	60,228,082
Auditor General's Office	2,268,666	2,058.677
Board of Broadcast Governors	1,033,551	601,814
Canadian Broadcasting Corporation	143,283,051	115,243,073
Central Mortgage and Housing Corporation	23,131,106	20,122,952
Chief Electoral Officer	755,357	919,041
Consumer and Corporate Affairs	7,594,713	5,529.033
Defence Production	35,499,257	34,182,715
Dominion Bureau of Statistics	22,474,762	26,635,421
Energy, Mines and Resources	138,113,503	130,188,364
External Affairs	215,748,898	230,474,187
Finance—		
Public debt charges	1,300,748,995	1,190,523,254
Fiscal, tax-sharing, subsidies and other payments to provinces	737,510,554	515,522,814
Other expenditure	110,575,776	129,985,187
	2,148,835,325	*1,836,031,255*
Fisheries	51,740,982	41,471,351
Forestry and Rural Development	81,062,602	66.490,503
Governor General and Lieutenant-Governors	959,867	774,003
Indian Affairs and Northern Development	231,436,114	197,415,383
Industry	118,198,390	78,519,018
Insurance	1,904,188	1,652,187
Justice	15,354,385	12,175,037
Labour	10,879,841	24,911,054
Legislation	18,305,865	17,835,638
Manpower and Immigration	421,593,934	320,416,247
National Defence—		
Defence services	1,527,867,125	1,435,115,001
Defence research	50,458,382	44,202,185
Other expenditure	175,156,881	161,060,372
	1,753,482,388	*1,640,377,558*
National Film Board	9,323,211	8,016,817
National Gallery of Canada	2,949,577	1,872,361
National Health and Welfare—		
Family allowances	558,774,458	555,794,947
Other expenditure	929,520,668	760,147,505
	1,488,295,126	*1,315,942,452*
National Research Council, including the Medical Research Council	121,748,623	94 648,779
National Revenue	115,058,155	105,868,118
Post Office	301,845,593	268,493,659
Privy Council	12,483,776	7,897,880
Public Archives and National Library	3,592,229	2,663,017
Public Printing and Stationery	4,874,166	4,020,598
Public Service Commission	13,390,368	10,848,505
Public Service Staff Relations Board	982,686	29,434
Public Works	308,599,166	294,372,635
Secretary of State	189,882,484	133,847,296
Solicitor General	153,459,858	144,275,859
Trade and Commerce	81,383,082	73,509,965
Transport	606,933,126	568,178,226
Treasury Board	158,573,075	153,358,110
Unemployment Insurance Commission	107,150,238	106,107,051
Veterans Affairs—		
Pensions	205,598,530	195,910,381
Other expenditure	195,216,382	194,910,164
	400,814,912	*390,820,545*
Total expenditure	9,871,364,117	8,779,680,996
Budgetary deficit	−794,774,669	−421,502,613
	9,076,589,448	8,358,178,383

H. R. BALLS,
Comptroller of the Treasury.

R. B. BRYCE,
Deputy Minister of Finance.

(This Statement is to be found on pages 7.2 and 7.3 of the Public Accounts, Volume I)

EXHIBIT 1

OF CANADA

THE FISCAL YEAR ENDED MARCH 31, 1968
the preceding fiscal year)

REVENUE

	Fiscal year ended March 31, 1968	March 31, 1967
Tax revenues—		
Income tax—		
Personal(1)	$ 2,849,573,890	$ 2,473,820,311
Corporation(1)	1,670,589,109	1,593,224,756
On dividends, interest, etc., going abroad	220,472,054	203,621,403
Excise taxes—		
Sales(1)	1,601,092,631	1,513,565,998
Other	337,048,159	315,580,981
Customs import duties	746,437,351	777,585,703
Excise duties	488,554,309	460,980,029
Estate tax	102,192,358	101,105,631
Miscellaneous	302,582	169,989
	8,016,262,443	*7,439,654,801*
Non-tax revenues—		
Return on investments	612,274,956	519,140,346
Post Office—net postal revenue	281,645,632	253,342,482
Refunds of previous years' expenditure	21,655,833	17,196,633
Services and service fees	58,914,544	48,813,292
Proceeds from sales	18,530,640	20,954,188
Privileges, licences and permits	41,610,501	38,754,392
Bullion and coinage	10,672,046	5,430,009
Premium, discount and exchange		242,572
Miscellaneous	15,022,853	14,649,668
	1,060,327,005	*918,523,582*
Total revenue	9,076,589,448	8,358,178,383

(1)Excluding tax credited to:

	1967–68	1966–67
Old age security fund—		
Personal income tax	$ 800,100,000	$ 576,600,000
Corporation income tax	150,000,000	149,500,000
Sales tax	544,516,014	559,515,045

Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the expenditure and revenue of Canada for the year ended March 31, 1968.

A. M. HENDERSON,
Auditor General.

THE GOVERNMENT

STATEMENT OF ASSETS AND
(with comparative figures

ASSETS

	March 31, 1968	March 31, 1967	Net increase or decrease (−) during 1967–68
1. Current assets—			
(a) Cash, schedule A, page 9	$ 1,260,654,098	$ 1,009,249,467	$ 251,404,631
(b) Departmental working capital advances, schedule B, page 9	186,540,216	157,794,702	28,745,514
(c) Securities held for the securities investment account at amortized cost	44,354,537	197,689,061	−153,334,524
(d) Other current assets, schedule C, page 10	39,121,940	29,232,481	9,889,459
	1,530,670,791	*1,393,965,711*	*136,705,080*
2. Cash in blocked currency	2,136,260	2,136,260	
3. Advances to the exchange fund account—(value of investments from advances on basis of official parity rates: March 31, 1968 $2,063,040,896; March 31, 1967, $2,384,728,896)	2,033,312,000	2,355,000,000	−321,688,000
4. Investments in United States dollar securities issued by other than the Government of Canada, schedule D, page 11	122,616,661	180,029,353	−57,412,692
5. Canada pension plan investment fund, schedule E, page 11	1,280,788,000	615,521,000	665,267,000
6. Investments held for retirement of unmatured debt	8,140,398	3,151,500	4,988,898
7. Loans to, and investments in, Crown corporations, schedule F, page 11	7,618,793,554	6,460,733,930	1,158,059,624
Recovery likely to require parliamentary appropriations	316,817,110	267,930,855	48,886,255
	7,935,610,664	*6,728,664,785*	*1,206,945,879*
8. Loans to national governments, schedule G, page 13	1,206,083,565	1,201,581,177	4,502,388
9. Other loans and investments, schedule H, page 14—			
(a) Subscriptions to capital of, and working capital advances and loans to, international organizations	969,646,296	952,187,667	17,458,629
(b) Loans to provincial governments	187,748,438	123,515,007	64,233,431
(c) Municipal development and loan board advances (less reserve for forgiveness of indebtedness)	279,673,531	231,233,935	48,439,596
(d) Veterans land act fund (less reserve for conditional benefits)	382,949,441	311,408,833	71,540,608
(e) Miscellaneous	121,269,244	91,556,780	29,712,464
Recovery likely to require parliamentary appropriations	3,869,256	4,095,991	−226,735
	1,945,156,206	*1,713,998,213*	*231,157,993*
10. Securities held in trust, schedule I, page 18	59,535,445	50,852,748	8,682,697
11. Deferred charges—			
(a) Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account	187,617,200	260,223,200	−72,606,000
Public service superannuation account	150,319,800	189,453,200	−39,133,400
Royal Canadian Mounted Police superannuation account	15,816,000	10,956,800	4,859,200
(b) Unamortized loan flotation costs, appendix No. 7, Section 9, page 16	138,201,555	121,212,572	16,988,983
	491,954,555	*581,845,772*	*−89,891,217*
12. Capital assets	1	1	
13. Inactive loans and investments, schedule J, page 18	94,824,381	94,824,381	
Total recorded assets	16,710,828,927	14,921,570,901	1,789,258,026
14. *Less*: reserve for losses on realization of assets	−546,384,065	−546,384,065	
Net recorded assets	16,164,444,862	14,375,186,836	1,789,258,026
15. Net debt, represented by excess of liabilities over net recorded assets, schedule K, page 19	16,759,725,147	15,964,950,478	794,774,669
	32,924,170,009	30,340,137,314	2,584,032,695

The notes appearing on page 6 are an integral part of this Statement of Assets and Liabilities.

H. R. BALLS,
Comptroller of the Treasury.

R. B. BRYCE,
Deputy Minister of Finance.

(This Statement and the schedules and pages referred to therein are to be found in the Public Accounts, Volume I, Section 7, except where otherwise indicated)

EXHIBIT 2

OF CANADA

LIABILITIES AS AT MARCH 31, 1968
as at March 31, 1967)

LIABILITIES

	March 31, 1968	March 31, 1967	Net increase or decrease (−) during 1967–68
16. Current and demand liabilities, schedule L, page 19—			
(a) Outstanding treasury cheques	$ 427,400,654	$ 382,624,889	$ 44,775,765
(b) Accounts payable (that portion paid in April of the next following fiscal year)	520,196,369	454,510,346	65,686,023
(c) Non-interest-bearing notes payable to the international monetary fund and other international organizations	816,729,712	366,378,362	450,351,350
(d) Matured debt outstanding	25,969,247	30,670,121	−4,700,874
(e) Interest due and outstanding	161,569,528	111,271,485	50,298,043
(f) Interest accrued	315,282,741	286,250,208	29,032,533
(g) Other current liabilities	43,479,142	40,396,425	3,082,717
	2,310,627,393	*1,672,101,836*	*638,525,557*
17. Deposit and trust accounts, schedule M, page 21	440,885,029	347,314,229	93,570,800
18. Annuity, insurance and pension accounts, schedule N, page 25	9,052,968,054	7,915,921,717	1,137,046,337
19. Undisbursed balances of appropriations to special accounts, schedule O, page 26	124,818,768	101,517,632	23,301,136
20. Refundable corporation tax	235,268,700	196,157,131	39,111,569
21. Provision for estimated premium on redemption of bonds, schedule P, page 26	26,041,259	19,993,056	6,048,203
22. Deferred credits, schedule Q, page 26	149,861,259	142,827,514	7,033,745
23. Suspense accounts, schedule R, page 27	3,824,513	4,098,170	−273,657
24. Unmatured debt, schedule S, page 28—			
(a) Bonds	18,099,875,034	17,630,206,029	469,669,005
(b) Treasury bills	2,480,000,000	2,310,000,000	170,000,000
	20,579,875,034	*19,940,206,029*	*639,669,005*
Total liabilities	32,924,170,009	30,340,137,314	2,584,032,695

NOTE:
The indirect or contingent liabilities of the Government of Canada, consisting of railway securities guaranteed as to principal and interest $1,197,180,986; other guarantees of $8,302,731,169; together with certain indeterminate guarantees, are listed on page 88

Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the financial position of Canada as at March 31, 1968.

A. M. HENDERSON,
Auditor General.

EXHIBIT 3

SUMMARY OF APPROPRIATIONS, EXPENDITURES AND UNEXPENDED BALANCES BY DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1968

Section (Volume II)	Department	Appropriations	Expenditures	Unexpended Balances	
				Lapsed	Carried forward[1]
		$	$	$	$
1	Agriculture	281,156,870	277,066,204	4,090,666	
2	Atomic Energy	69,307,400	69,301,717	5,683	
3	Auditor General's Office	2,269,000	2,268,666	334	
4	Board of Broadcast Governors	1,300,800	1,033,551	267,249	
5	Canadian Broadcasting Corporation	143,960,000	143,283,051	676,949	
6	Central Mortgage and Housing Corporation	27,024,570	23,131,106	3,893,464	
7	Chief Electoral Officer	756,984	755,357	1,627	
8	Consumer and Corporate Affairs	7,856,879	7,594,713	262,166	
9	Defence Production	40,367,094	35,499,257	4,867,837	
10	Dominion Bureau of Statistics	23,780,900	22,474,762	1,306,138	
11	Energy, Mines and Resources	154,030,901	138,113,503	15,917,398	
12	External Affairs	(2) 221,185,571	215,748,898	3,037,884	2,398,789
13	Finance	(3) 2,154,763,619	2,148,835,325	935,780	4,992,514
14	Fisheries	52,902,742	51,740,982	1,161,760	
15	Forestry and Rural Development	83,791,625	81,062,602	2,729,023	
16	Governor General and Lieutenant-Governors	986,103	959,867	26,236	
17	Indian Affairs and Northern Development	241,625,645	231,436,114	6,482,473	3,707,058
18	Industry	131,868,253	118,198,390	13,669,863	
19	Insurance	1,907,364	1,904,188	3,176	
20	Justice	15,773,368	15,354,385	418,983	
21	Labour	12,794,579	10,879,841	1,914,738	
22	Legislation	18,507,495	18,305,865	201,630	
23	Manpower and Immigration	(4) 469,963,404	421,593,934	24,355,934	24,013,536
24	National Defence	1,758,327,208	1,753,482,388	4,844,820	
25	National Film Board	9,324,500	9,323,211	1,289	
26	National Gallery of Canada	2,953,000	2,949,577	3,423	
27	National Health and Welfare	1,497,257,115	1,488,295,126	8,961,989	
28	National Research Council, including the Medical Research Council	122,380,000	121,748,623	631,377	
29	National Revenue	118,755,588	115,058,155	3,697,433	
30	Post Office	306,741,839	301,845,593	4,896,246	
31	Privy Council	13,242,737	12,483,776	758,961	
32	Public Archives and National Library	3,655,000	3,592,229	62,771	
33	Public Printing and Stationery	4,910,574	4,874,166	36,408	
34	Public Service Commission	14,908,101	13,390,368	1,517,733	
35	Public Service Staff Relations Board	1,083,000	982,686	100,314	
36	Public Works	321,617,010	308,599,166	13,017,844	
37	Secretary of State	(5) 195,043,626	189,882,484	5,161,142	
38	Solicitor General	161,542,359	153,459,858	8,082,501	
39	Trade and Commerce	94,759,805	81,383,082	1,025,959	12,350,764
40	Transport	622,639,497	606,933,126	14,978,237	728,134
41	Treasury Board	173,841,519	158,573,075	15,268,444	
42	Unemployment Insurance Commission	111,971,544	107,150,238	4,821,306	
43	Veterans Affairs	416,419,804	400,814,912	15,604,892	
		(6) 10,109,254,992	9,871,364,117	189,700,080	48,190,795

(1) Available for expenditure in subsequent fiscal years: Department of External Affairs vote 35, $2,398,789, Department of Finance vote 46c, $3,919,419 and vote 50, $1,073,095, Department of Indian Affairs and Northern Development vote 30, $3,707,058, Department of Manpower and Immigration vote 6b, $21,013,536 and vote 10, $3,000,000, Department of Trade and Commerce vote 35c, $12,350,764, and Department of Transport vote 95a, $23,138 and vote 100a, $704,996.

(2) Includes $4,005,222 carried forward from vote 35, Department of External Affairs 1966–67 estimates.

(3) Includes $3,124,311 carried forward from vote 50b, Department of Finance 1966–67 estimates.

(4) Includes $44,030,799 carried forward from vote 6c, Department of Manpower and Immigration 1966–67 estimates.

(5) Includes $1,321,000 carried forward from vote 27a, Department of the Secretary of State 1966–67 estimates.

(6) In addition, parts of appropriations in the amount of $163,248 in respect of the Department of Agriculture and expenditures in a similar amount were transferred to "other loans and investments".

H. R. BALLS,
Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the expenditures as set forth in the above Statement have been examined under my direction and subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1968.

A. M. HENDERSON,
Auditor General.

(This Summary is to be found on page 8.2 of the Public Accounts, Volume I, and the sections referred to therein are those in the Public Accounts, Volume II)

EXHIBIT 4

SUMMARY OF REVENUE BY MAIN CLASSIFICATIONS AND DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1968

Section (Volume II)	Department	Tax revenues	Return on investments	Bullion and coinage	Postal revenue	Privileges, licences and permits	Proceeds from sales	Services and service fees	Refunds of previous years' expenditure	Miscel- laneous	Total
		$	$	$	$	$	$	$	$	$	$
1	Agriculture		771,586			1,498,231	1,753,419	9,300,329	89,089	170,290	13,582,944
2	Atomic Energy		654,544								654,544
3	Auditor General's Office							13,046	1,081	4	14,131
4	Board of Broadcast Governors								9	2,583	2,592
5	Canadian Broadcasting Corporation					10,291					10,291
6	Central Mortgage and Housing Corporation		163,328,293				3,459,200		1,309,768	913,691	169,010,952
7	Office of the Chief Electoral Officer								17	6,200	6,217
8	Consumer and Corporate Affairs					5,255,500	21	604,422	1,717	505,118	6,366,778
9	Defence Production		5,134,935				4,706,547	76,310	377,094	115,642	10,410,528
10	Dominion Bureau of Statistics							64,614	3,065		67,679
11	Energy, Mines and Resources		149,143			389,996	809,497	51,018	83,513	31,961	1,515,128
12	External Affairs		309,103			1,370,600	107,271	17,655	204,647	576,524	2,585,800
13	Finance		404,060,583	10,672,046			70	6,740,316	188,345	1,583,295	423,244,655
14	Fisheries		378,414			297,917	163,287	3,350	13,007	103,014	958,989
15	Forestry and Rural Development					179,951	52,859	3,747	98,588	117	335,262
17	Indian Affairs and Northern Development	1	1,007,081			7,759,122	1,043,005	1,264,928	854,625	847,010	12,775,772
18	Industry		987,392				628		35,485	227,616	1,251,121
19	Insurance	302,581						1,244,571		65	1,547,217
20	Justice							64,231	6,196	59,434	129,861
21	Labour		1,969				4,168	1,803	5,465	1,203,514	1,216,919
22	Legislation					255,744		5,136	12,164	114,599	387,643
23	Manpower and Immigration		1,567			19,548	28,672	34,562	1,270,987	357,130	1,712,466
24	National Defence		1,369,081			720,672	1,043,614	2,178,168	6,863,151	2,495,552	14,670,238
25	National Film Board								80,664		80,664
26	National Gallery of Canada									66	66
27	National Health and Welfare					299,609	249,839	5,553,880	563,000	73,073	6,739,401
28	National Research Council, including the Medical Research Council		191						234,059	528	234,778
29	National Revenue	8,015,959,861	1,885			95,411	244,230	269,676	103,590	3,046,614	8,019,721,267
30	Post Office		17,633		281,645,632				53,574	49,154	281,765,993
31	Privy Council								1,808	5,752	7,560
32	Public Archives and National Library		12,192					24,859	3,910	289	41,250
33	Public Printing and Stationery					23,842	3,148,207	44,647	286	1,490	3,218,472
34	Public Service Commission							5,781	811	10	6,602
35	Public Service Staff Relations Board								954		954
36	Public Works					4,299,779	581	1,936,647	636,540	442,054	7,315,601
37	Secretary of State					521,266	3,467		14,447	101,259	640,439
38	Solicitor General		441,184			47,970	326,357	7,555	475,041	236,887	1,534,994
39	Trade and Commerce		9,478,688			36,273	107,471	2,207,368	64,205	321,938	12,215,943
40	Transport		11,180,186			18,507,286	1,181,649	27,191,160	1,217,732	486,324	59,764,337
41	Treasury Board									661,765	661,765
42	Unemployment Insurance Commission						5	4,765	23,807	175,531	204,108
43	Veterans Affairs		12,989,306			21,493	96,576		6,763,392	106,760	19,977,527
		8,016,262,443	612,274,956	10,672,046	281,645,632	41,610,501	18,530,640	58,914,544	21,655,833	15,022,853	9,076,589,448

H. R. BALLS,
Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the revenues as set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1968.

A. M. HENDERSON,
Auditor General.

(This Summary is to be found on pages 8.62 and 8.63 of the Public Accounts, Volume I, and the sections referred to therein are those in the Public Accounts, Volume II)